

Executive Summary

of Investment Performance

Prepared for:
California Public Employees' Retirement System

California Affiliate

- **Judges II**
- **Long Term Care**
- **Volunteer Firefighters**

California Legislators' Fund

Annuitants Healthcare Plan

California Supplemental Income Plans

Third Quarter 2008

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Capital Market Overview

The third quarter of 2008 began with a whimper as the US stock market officially slid into “bear market” territory. The unwinding crisis in global credit markets accompanying the dramatic deflation of the US real estate bubble took an increasingly heavier toll on all world stock markets; “liquidity”, or the lack thereof, became the latest hot financial catchphrase as normal short-term financing operations worldwide seized up in a virtual lending freeze. Consumer spending slowed markedly and housing prices slid further. Crude oil futures prices, after hitting a peak level of \$145.29 a barrel on July 3, plunged in the face of declining demand to close the quarter at \$100.64, which served to slam the stock price of energy-related companies, long the lone bright spot in sinking markets. But September ushered in a chain of stunning events whose effects will be felt in global politics as well as economies. On September 7, the US Government announced its takeover of troubled mortgage underwriters Fannie Mae and Freddie Mac. September 15 saw Bank of America finalize a fire-sale purchase of Merrill Lynch (at half-price from early 2007). That news was immediately overshadowed by the enormity of the announcement that same day of the bankruptcy of Lehman Brothers, the largest in US history (at \$639 billion, six times the assets of the previous record holder, WorldCom); Barclays Plc acquired Lehman’s North American investment banking and capital markets operations the following day. Also on September 16, AIG declared itself unable to attain financing for collateral demands; exposure to now-defaulted Lehman Brothers paper helped bring down this insurance giant. The US Government agreed to loan AIG up to \$85 billion in a two-year arrangement in which the Fed gained a 79.9% equity stake in the company (and will in all likelihood dissolve it over that time period). On September 17, the Prime Reserve Fund broke the buck; the NAV on this, the nation’s oldest money-market fund, dropped from \$1.00 to \$0.97 on losses due to Lehman paper. On September 26, Washington Mutual declared bankruptcy, the largest bank failure in US history. And on a busy September 29, Citigroup announced their FDIC-assisted acquisition of Wachovia Corp (a deal that has since soured, with Wells Fargo outbidding Citi mere days later), and an initial financial company bailout package failed to pass the US House of Representatives. Inflation on the consumer level, thanks largely to the slide in commodities prices, was basically non-existent over the course of the quarter (CPI US All Urban Consumers, -0.01%). The US dollar halted its global slide against world currencies, a rare victory for the dollar but a punishment for US-based investors holding assets overseas.

U.S. Equity Market

The US stock markets yielded widespread pain and few winners. The S&P 500 returned -8.4% in the third quarter; the broader Dow Jones Wilshire 5000 returned -8.7%. Interestingly, large-cap stocks were outdistanced by small- and micro-cap issues (DJW Large Cap, -9.0%; DJW Small Cap, -5.9%; DJW Microcap, -7.2%). As oil prices plummeted and the bear market asserted itself, value-oriented stocks earned clear favor with investors looking for relatively safe, less-volatile equity; the earning of smaller-scale banks without large sub-prime mortgage portfolios or notable investment banking operations were actually quite good, cementing the win for value stocks (DJW Large Value, -5.4%; DJW Small Value, -0.2%; DJW Large Growth, -12.0%; DJW Small Growth, -11.0%). Turning to sector performance of the S&P 500 (Wilshire classifications), the typical defensive sectors of Consumer Non-Durables (1.7%) and Finance (0.7%) were the only positive performers over the quarter. With oil prices dramatically falling and investors taking their



recent profits and moving to safer issues, the biggest losers for the quarter were Energy (-24.0%) and Utilities (-17.1%) stocks. Amazingly, the best-performing single economic sector was Real Estate Securities, which managed surprisingly strong returns this quarter (DJW Real Estate Securities, 4.5%).

Fixed Income Market

The Fed Funds rate remained stable at 2% over the third quarter (despite two Federal Reserve Board meetings), but as the roller-coaster ride that was this quarter became wilder, US Treasury yields were nudged lower. The yield on two-year Treasuries fell 70 basis points to 1.9%, while the yield on thirty-year bonds drifted down 20 b.p. to 4.3%. As befits a falling interest-rate scenario, long-term Treasuries outperformed shorter-term paper (Lehman Long Treasury, 2.8%; Lehman 1-3 Year Treasury, 1.7%). Despite the turmoil in Freddie Mac and Fannie Mae, the broad Government (Treasury + Agency) sector and Agency Mortgage sector yielded solid returns (Lehman Government, 1.9%; Lehman Mortgage, 1.9%). However, the huge blowups in finance company paper blew investment-grade corporate spreads dramatically wider (Lehman Credit, -6.4%). High yield bond spreads also widened considerably (some 300 b.p. wider for the broad sector), causing notable losses for junk-rated paper (Lehman High Yield, -8.9%).

Non-U.S. Markets

Non-US markets had their own problems during the third quarter. It is now clear that many major world economies will experience deep slowdowns in expansion, if not outright recessions, in the near term. Falling commodities prices slammed major emerging markets like Russia and Brazil, driving down stock prices. US-based investors sold their offshore investments and repatriated their cash at an increased rate over the quarter. These market forces, combined with a stronger US dollar, served to make the going rough in global markets. In local currency terms, Europe's stock market drop (MSCI Europe -11.3% local currency) was not as precipitous as the Asia/Pacific region (MSCI Pacific net, -16.6% local); however, the Euro and the Pound both lost notable ground against the US Dollar, much more so than Asia/Pacific currencies (MSCI Europe -20.8% USD; MSCI Pacific net, -20.1% USD). The commodity-rich emerging markets took a harder hit over the quarter than developed markets in local currency and US dollar terms (MSCI Emerging Markets net, -20.9% local, -27.0% USD; MSCI EAFE net, -13.0% local, -20.6% USD). In global fixed income markets, the resurgent US dollar erased any return gains from the overall benign global interest-rate environment for US-based investors (Lehman Global Aggregate, -3.8% USD; JP Morgan EMBI+, -4.6% USD).



Summary of Index Returns

For Periods Ended September 30, 2008

	<u>Quarter</u>	<u>One Year</u>	<u>Three Years</u>	<u>Five Years</u>	<u>Ten Years</u>
Domestic Equity					
Standard & Poor's 500	-8.37%	-21.97%	0.23%	5.18%	3.06%
Dow Jones Wilshire 5000	-8.67	-21.26	0.56	6.00	3.98
Dow Jones Wilshire 4500	-9.99	-19.77	1.15	8.28	6.91
Dow Jones Wilshire Large Cap	-9.04	-21.42	0.62	5.76	3.40
Dow Jones Wilshire Small Cap	-5.94	-18.92	1.09	8.41	8.42
Dow Jones Wilshire Micro Cap	-7.20	-27.52	-5.76	2.88	10.44
Domestic Equity					
Dow Jones Wilshire Large Value	-5.44%	-23.83%	0.48%	6.47%	5.11%
Dow Jones Wilshire Large Growth	-12.02	-19.13	0.54	4.92	1.32
Dow Jones Wilshire Mid Value	-4.61	-17.79	-0.10	7.14	9.06
Dow Jones Wilshire Mid Growth	-16.09	-22.63	1.10	9.15	5.79
Dow Jones Wilshire Small Value	-0.21	-17.00	0.95	8.45	10.16
Dow Jones Wilshire Small Growth	-10.98	-20.62	1.21	8.33	5.82
International Equity					
MSCI All World ex U.S.	-21.84%	-29.97%	3.09%	11.80%	6.85%
MSCI EAFE	-20.56	-30.50	1.12	9.69	5.02
MSCI Europe	-20.77	-30.93	2.51	10.96	4.78
MSCI Pacific	-20.10	-29.60	-1.80	6.91	5.81
MSCI EMF Index	-26.86	-33.01	8.69	19.05	14.77
Domestic Fixed Income					
Lehman Aggregate Bond	-0.48%	3.66%	4.15%	3.78%	5.20%
Lehman Credit	-6.39	-4.79	0.86	1.94	4.50
Lehman Mortgage	1.87	7.01	5.53	4.84	5.68
Lehman Treasury	2.30	8.72	5.79	4.47	5.36
Citigroup High Yield Cash Pay	-8.93	-11.18	0.90	4.18	4.72
91-Day Treasury Bill	0.63	2.91	4.19	3.25	3.52
International Fixed Income					
Citigroup Non-U.S. Gov. Bond	-2.97	5.9	5.57	5.35	5.38
Citigroup World Gov. Bond	-4.26	5.16	5.52	5.56	5.24
Citigroup Hedged Non-U.S. Gov.	2.66	4.36	3.74	4.24	4.87
Currency*					
Euro vs. \$	-10.85%	-1.23%	5.22%	3.82%	-.%
Yen vs. \$	-0.15	8.34	2.20	1.02	2.52
Pound vs. \$	-10.44	-12.51	0.25	1.42	0.48
Real Estate					
Dow Jones Wilshire REIT Index	4.78%	-12.46%	5.18%	13.43%	13.04%
Dow Jones Wilshire RESI	4.51	-12.86	5.12	13.59	12.92
NCREIF Property Index	-0.17	5.27	13.24	14.24	11.83



Summary Review of Plans

	<u>Market Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>
TOTAL FUND for PERF	\$213.5 bil	-10.8%	-15.8%	3.4%	7.9%	6.2%
<i>Total Fund Policy Index</i>		-8.3%	-12.7%	4.1%	7.9%	5.9%
<i>Actuarial Rate</i>		1.8%	7.8%	7.8%	7.8%	8.0%
<i>TUCS Public Fund Median</i>		-8.2%	-14.4%	2.7%	6.4%	5.6%
<i>Wilshire Large Fund Universe Median ¹</i>		-8.7%	-14.6%	2.9%	7.1%	5.7%
Affiliate Fund						
Judges II	\$295.4 mil	-8.9%	-15.6%	2.1%	5.9%	4.8%
<i>Weighted Policy Benchmark</i>		-7.1%	-14.2%	2.6%	6.0%	4.9%
Long Term Care ("LTC")	\$2,145.3 mil	-9.3%	-14.4%	2.0%	5.7%	4.7%
<i>Weighted Policy Benchmark</i>		-7.7%	-12.9%	2.4%	5.8%	4.8%
Annuitants Health Care	\$648.0mil	-9.9%	-16.6%	-.%	-.%	-.%
<i>Weighted Policy Benchmark</i>		-9.5%	-18.0%	-.%	-.%	-.%
<i>TUCS Public Fund Median</i>		-8.2%	-14.4%	2.7%	6.4%	5.6%
Legislators' Fund						
LRS	\$121.7 mil	-7.9%	-10.7%	2.0%	4.6%	5.1%
<i>Weighted Policy Benchmark</i>		-5.8%	-8.3%	2.6%	5.3%	5.6%
<i>TUCS Public Fund Median</i>		-8.2%	-14.4%	2.7%	6.4%	5.6%
Supplemental Income Plans	\$16.7 mil	-10.0%	-18.3%	1.0%	5.4%	-.%
<i>Weighted Policy Benchmark</i>		-9.1%	-17.3%	1.6%	5.7%	-.%

¹ The Total Fund Policy Index return equals the return for each asset class benchmark weighted at the current target asset allocation.



Total Fund Review PERF Periods Ended 9/30/2008

	Market Value \$213.5 bil	Five-Year Ratios								
		<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>	<u>VaR</u> ¹³	<u>PAR</u> ¹⁴	<u>Sharpe</u> ¹⁵	<u>Info</u> ¹⁵
TOTAL FUND										
Total Fund Policy Index ²		-10.8%	-15.8%	3.4%	7.9%	6.2%	\$20.9bil	0.4%	0.5	0.0
Actuarial Rate		1.8%	7.8%	7.8%	7.8%	8.0%			0.6	0.0
TUCS Public Fund Median		-8.2%	-14.4%	2.7%	6.4%	5.6%				
Wilshire Large Fund Universe Median ³		-8.7%	-14.6%	2.9%	7.1%	5.7%				
TOTAL GLOBAL EQUITY EX-AIM ⁴	104.7	-14.4%	-25.3%	0.6%	7.6%	5.0%	\$16.7 bil	0.3%	0.3	-0.2
Equity Policy Index ⁵		-13.3%	-24.0%	1.5%	7.7%	4.7%			0.3	0.0
TUCS Equity Median ⁶		-8.8%	-21.0%	0.5%	6.7%	5.5%				
TOTAL FIXED INCOME ⁷	50.7	-5.2%	-1.7%	2.8%	4.0%	5.3%	\$2.5 bil	0.1%	0.1	-0.1
Fixed Income Policy Index ⁸		-1.8%	2.9%	3.7%	4.2%	5.4%			0.2	0.0
TUCS Fixed Income Median		-1.9%	1.8%	3.7%	3.8%	5.3%				
TOTAL REAL ESTATE ⁹	21.7	-13.7%	-14.4%	7.4%	14.8%	12.5%	\$4.2 bil	0.1%	1.1	
Real Estate Policy Benchmark		-0.1%	8.5%	14.7%	14.6%	12.2%			4.2	
TUCS Real Estate Median		-0.7%	1.8%	11.5%	14.2%	12.4%				
TOTAL AIM PROGRAM	26.1	-2.3%	4.7%	18.8%	18.3%	10.9%	\$7.4 bil	0.1%	2.0	
PERS 2500 ex-Tobacco + 3% Index		-8.2%	-18.8%	4.1%	10.1%	8.5%			0.6	
Policy Index ¹⁰		2.7%	13.0%	16.1%	16.1%	6.7%				
TOTAL INFLATION LINKED PROGRAM	4.2	-10.7%	-9.2%	-.%	-.%	-.%	\$0.7 bil			
Policy Index		2.1%	-9.4%	-.%	-.%	-.%				
CASH EQUITIZATION PROGRAM ¹¹	4.1	-11.1%	-17.8%	-2.9%	-1.0%	1.7%				
Custom STIF ¹²		0.6%	3.4%	4.5%	3.4%	3.7%				

² The Total Fund Policy Index return equals the return for each asset class benchmark weighted at the current target asset allocations.

³ These returns represent preliminary numbers.

⁴ Includes domestic equity, international equity, corporate governance, and MDP ventures. It does not include developed small cap, mid cap, and emerging transitions accounts. These amounts are reflected in total fund but are not included in any composite.

⁵ The Equity Policy Index return equals the benchmark returns for the domestic equity and international equity segments weighted at policy allocation target percentages.

⁶ Includes domestic and international equity.

⁷ The Total Fixed Income Composite does not include LM Capital. LM Capital has been mapped to the domestic equity composite, effective 1Q2005, per CalPERS' direction.

⁸ The Fixed Income Policy Index return equals the benchmark returns for domestic and international fixed income components weighted at policy allocation target percentages.

⁹ Real estate total returns are net of investment management fees and all expenses, including property level operations expenses netted from property income. This method differs from GASB 31, which requires all investment expenses be identified for inclusion in the System's general purpose financial statements.

¹⁰ The AIM Policy Index consists of the Custom Young Fund Universe and is linked historically to its prior benchmark.

¹¹ Cash is equitized using equity index futures in proportion to the Total Equity Policy Weights.

¹² The Custom STIF Policy Index is a custom index maintained by SSgA.

¹³ VAR (Value at Risk) measures how much the portfolio might decrease over a 12 month period in extreme cases. The VAR estimate shows how much the portfolio value might fall in the worst 5% of 12 month periods. VAR is calculated using total risk (standard deviation) and market value ((Expected Return - (1.65 X SD)) X MV).

¹⁴ PAR (Performance at Risk) measures how much the portfolio might underperform its benchmark over a 12 month period in extreme cases. This PAR shows how much the portfolio might underperform in the worst 5% of 12 month periods. PAR is calculated using excess risk (tracking error) and market value (1.65 X TE X MV). The PAR for ILAC will be shown after 4 quarters of history.

¹⁵ The "Information Ratio" calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per unit of excess risk ventured. The Sharpe ratio or reward-to-variability ratio is a measure of the mean excess return per unit of risk in an investment strategy. The Sharpe ratio is used to characterize how well the return of an asset compensates the investor for the total risk taken. The 5-year period was selected to provide sufficient data points for a meaningful calculation, but is still short enough to reflect the changes to the investment programs over the last few years.



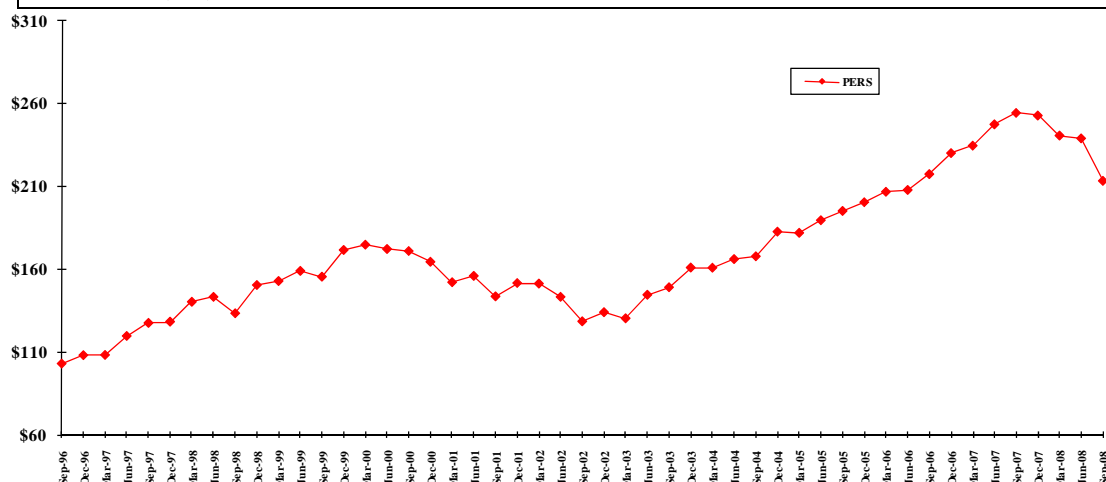
Total Fund Review for PERF (continued)
Periods Ended 9/30/08

Total Fund Flow

<u>(\$Millions)</u>	<u>Beg. Mkt Value</u>	<u>Net Cash Flow</u>	<u>Invest. Mgmt Fees</u>	<u>Invest. Gain/Loss</u>	<u>End. Mkt Value</u>	<u>Total Return</u>
3Q08	239,233	(259)	(120)	(25,335)	213,519	(10.8)%

Historical Growth of Assets

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>4Q07</u>	<u>1Q08</u>	<u>2Q08</u>	<u>3Q08</u>
Market Value (\$bil)	164.6	151.7	134.1	161.0	182.8	200.6	230.3	253.0	240.9	239.2	213.5



Asset Allocation

Asset Allocation: Actual versus Target Weights*

<u>Asset Class</u>	<u>Actual Asset Allocation</u>	<u>Target Asset Allocation</u>	<u>Difference</u>
	<u>Quarter Ending</u>		<u>Ending</u>
Equities	50.0%	56.0%	-6.0%
Fixed Income	23.6%	22.5%	1.1%
Real Estate	10.2%	10.0%	0.2%
ILAC	2.0%	2.0%	0.0%
AIM	12.2%	9.5%	2.7%
Cash Equivalents	1.9%	0.0%	1.9%

CalPERS Historical Asset Allocation

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>4Q07</u>	<u>1Q08</u>	<u>2Q08</u>	<u>3Q08</u>
% Equity	66	69	70	64	63	57	63	63	62	63	56	52	52	50
% AIM	-	-	-	-	-	5	5	5	5	6	8	9	10	12
% Fixed Income	28	26	24	29	27	28	24	24	25	23	27	27	25	24
% ILAC	-	-	-	-	-	-	-	-	-	-	1	1	2	2
% Real Estate	5	4	5	6	9	9	7	6	5	8	8	10	10	10
% Cash	1	1	1	1	1	1	1	1	3	1	1	1	1	1

* Asset allocation targets are in the process of shifting to the new targets adopted by the Investment Committee as of January 2008.



California Public Employees' Retirement System
Total Fund Attribution
Total Composite
Quarter Ended 9/30/08

Composite	Allocation			Returns			Total Fund Return Contribution				
	Policy (%)	Actual (%)	Difference (%)	Policy (%)	Actual (%)	Difference (%)	Strategic Policy (%)	Actual Allocation (%)	Active Mgmt (%)	Activity (%)	Weighted Return (%)
Total Equity ex-AIM	56.0	51.9	-4.1	-13.33	-14.37	-1.04	-7.46	0.25	-0.54	0.04	-7.71
U.S. Equity	36.1	27.4	-8.7	-8.93	-9.52	-0.59	-3.22	0.05	-0.16	0.64	-2.69
Internal Passive (including DCF)	25.9	21.2	-4.7	-8.93	-8.35	0.58	-2.31	0.03	0.12	0.39	-1.77
Internal Enhanced	1.8	1.9	0.1	-8.92	-11.30	-2.38	-0.16	0.00	-0.05	-0.01	-0.22
External Enhanced	3.8	0.6	-3.2	-8.82	-8.28	0.54	-0.34	0.02	0.00	0.27	-0.05
Active	1.8	1.3	-0.5	-9.57	-14.79	-5.22	-0.17	0.01	-0.07	0.04	-0.19
Corporate Governanace	1.8	0.9	-0.9	-6.60	-4.98	1.62	-0.12	-0.01	0.01	0.07	-0.05
Long/Short	0.0	0.9	0.9	-9.27	-10.31	-1.04	0.00	-0.01	-0.01	-0.07	-0.09
MDP	0.8	0.6	-0.2	-8.40	-12.50	-4.10	-0.07	0.00	-0.03	0.01	-0.08
Non-U.S. Equity	18.1	21.3	3.2	-21.00	-20.22	0.78	-3.80	-0.21	0.17	-0.46	-4.30
Passive	8.7	13.2	4.5	-20.64	-18.74	1.90	-1.80	-0.56	0.25	-0.37	-2.48
Enhanced	1.5	0.6	-0.9	-20.56	-24.50	-3.94	-0.31	0.11	-0.02	0.08	-0.14
Active	3.5	3.8	0.3	-20.56	-23.99	-3.43	-0.72	-0.03	-0.13	-0.02	-0.91
Emerging Markets	3.1	2.4	-0.7	-26.37	-24.62	1.75	-0.82	0.13	0.04	0.06	-0.59
Corporate Governanace	0.9	1.2	0.3	-21.26	-21.26	0.00	-0.19	-0.04	0.00	-0.02	-0.25
MDP	0.4	0.1	-0.3	-20.57	-18.77	1.81	-0.08	0.03	0.00	0.02	-0.02
Currency Overlay	0.0	0.0	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
RM ARS	1.8	3.2	1.4	2.30	-8.70	-11.00	0.04	0.15	-0.35	-0.12	-0.28
Total Fixed Income	23.5	24.7	1.2	-1.80	-5.21	-3.41	-0.42	0.11	-0.84	-0.13	-1.29
U.S. Fixed Income	21.5	22.6	1.1	-1.59	-5.17	-3.58	-0.34	0.11	-0.81	-0.13	-1.17
Internal U.S. Bonds^	21.0	21.0	0.0	-1.59	-5.55	-3.96	-0.33	0.00	-0.83	0.00	-1.17
Special Investments^	0.8	0.4	-0.4	0.92	0.96	0.04	0.01	-0.04	0.00	0.03	0.00
Opportunistic^	0.7	1.2	0.5	-7.94	-22.02	-14.08	-0.06	0.00	-0.17	-0.04	-0.27
Non-U.S. Fixed Income	2.0	2.1	0.1	-4.23	-5.74	-1.51	-0.08	0.00	-0.03	-0.01	-0.12
ILAC	1.5	2.0	0.5	2.09	-10.74	-12.83	0.03	-0.01	-0.25	0.02	-0.21
Real Estate	10.0	9.9	-0.1	-0.10	-13.65	-13.55	-0.01	0.01	-1.34	-0.01	-1.35
AIM Program	9.0	10.4	1.4	2.70	-2.34	-5.04	0.24	0.15	-0.52	-0.11	-0.24
Cash Equization	0.0	1.1	1.1	0.63	-11.10	-11.73	0.00	0.15	-0.13	-0.14	-0.13
Total Fund	100.0	100.0	0.0	-8.31	-10.81	-2.50	-8.31	0.66	-3.54	0.38	-10.81

The Total Fund Attribution displays the return contribution of each asset class to the total fund using the allocation to each program at the beginning of the quarter and this quarter's returns to determine if tactical allocation and active management within asset classes helped or hurt performance



Total Fund Review for PERF (continued)

- ◆ The California Public Employees' Retirement System ("CalPERS, the System") generated a total fund return of -10.8%, for the quarter ended September 30, 2008. CalPERS' return can be attributed as follows:

-8.31% Strategic Policy Allocation
+0.66% Actual/Tactical Asset Allocation
+0.38% Activity/Timing
-3.54% Active Management
-10.81% Total Return

- ◆ The total fund attribution table on the previous page displays the return contribution of each asset class to the total fund. This table will allow the Board to see if tactical allocation and active management within asset classes helped or hurt performance during the quarter.
 - Strategic Policy: The contribution to total return from each asset class, calculated as the percentage allocated to each asset class multiplied by the benchmark for that asset class.
 - Activity: The Activity contribution column is the difference between the "buy and hold" portfolio and the weighted return and would be caused by timing and size of cash flows (transfers, deposits, and withdrawals).
 - Actual Allocation: The return contribution during the quarter due to differences in the actual allocation from the policy allocation (i.e. the actual allocation to total equity was higher than the policy allocation). A positive number would indicate an overweight benefited performance and vice versa.
 - Active Management: The return contribution from active management. The number would be positive if the asset class outperformed the designated policy index and vice versa (i.e. the US fixed income segment outperformed its custom benchmark during the quarter and contributed positively to active management).
 - Actual Return: The actual return of the asset classes if allocations to them were static during the quarter. These returns will not match exactly with the actual segment returns since asset class allocations change during the quarter due to market movement, cash flows, etc.
- ◆ The Total Fund composite lagged its strategic policy for the quarter. However, the System has outperformed against its weighted policy for the 10-year period. The CalPERS total fund return has lagged its actuarial rate for the one year, three, and ten year periods.

Total Fund Review for PERF (continued)

Helped Performance:

- ◆ **AIM Program:** The alternative investment program outperformed the total fund and equity policies and has continued to contribute favorably to the total fund policy for the one year, three year, five year, and ten year periods.
- ◆ **US Bond Exposure:** Bond markets saw yields raise as investors sold fixed income securities as the liquidity crises unfolded. However, the Bond segment still outperformed the total fund policy return as fixed income outperformed equities. Over longer periods this segment has outperformed the total fund policy for the one year time period.
- ◆ **International Fixed Income:** The international bond segment also outperformed the total fund policy and has outperformed over the one year and three year period.

Impeded Performance:

- ◆ **U.S. Equity Exposure:** The System's U.S. equity asset class returned -9.5% which underperformed the total fund policy return. Domestic equities have underperformed the total fund policy return for the one, three, five, and ten year periods.
- ◆ **International Equity Exposure:** The System's international equity program returned -20.2% and underperformed the policy index return for the quarter. International equities have outperformed the total fund policy for the five and ten year periods.
- ◆ **Corporate Governance:** The System's corporate governance program underperformed the total fund policy for the quarter and all other listed periods.
- ◆ **RM ARS Program:** The RM ARS Program underperformed the total fund policy. The program has outperformed the total fund policy for the one year period.
- ◆ **Total Inflation Linked Program:** The total inflation linked program underperformed the total fund policy.
- ◆ **Real Estate:** The System's real estate segment underperformed the total fund policy as real estate prices fell across the nation. The program has produced excellent long-term returns and has outperformed the total fund policy for the one, three, five, and ten year periods.

Total Equity Review for PERF

Periods Ended 9/30/08

Equity Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
US Equities	29.3	31.4%	-2.1
Non US Equities	20.6*	24.6	-3.9

Equity Segment Performance

	Market Value	Qtr	1 Year	3 Year	5 Year	10 Year	VaR ²³	PAR ²⁴	5-year Sharpe Ratio ²⁵	5-year Info Ratio ²⁵
Total Global Equity ex-AIM¹⁶	104.7	-14.4%	-25.3%	0.6%	7.6%	5.0%	\$16.7 bil	0.3%	0.3	-0.2
Equity Policy Index ¹⁷		-13.3%	-24.0%	1.5%	7.7%	4.7%			0.3	0.0
Value Added		-1.1%	-1.3%	-0.9%	-0.1%	0.3%				
US Equity Composite	54.3	-9.5%	-21.9%	0.2%	5.5%	3.8%			0.2	-0.6
PERS Wilshire 2500 Index		-8.9%	-21.2%	0.6%	5.8%	3.6%			0.2	0.0
Value Added		-0.6%	-0.7%	-0.4%	-0.3%	0.2%				
Non-US Equity Composite	39.2	-20.2%	-29.5%	2.5%	11.0%	6.2%			0.5	-0.2
PERS Custom Index ¹⁸		-21.0%	-29.4%	2.6%	11.3%	6.6%			0.5	0.0
Value Added		0.8%	-0.1%	-0.1%	-0.3%	-0.4%				
RM ARS Program	7.1	-8.7%	-9.9%	3.6%	6.4%	-.-%			0.4	-0.4
Policy Index ¹⁹		2.3%	9.8%	9.9%	9.9%	-.%			2.6	0.0
Value Added		-11.0%	-19.7%	-6.3%	-3.5%	-.%				
Corporate Governance	4.3	-14.2%	-28.7%	-2.9%	6.4%	-.-%			0.2	-0.1
Policy Index ²⁰		-13.1%	-24.7%	-0.3%	7.1%	-.%			0.3	0.0
Value Added		-1.1%	-4.0%	-2.6%	-0.7%	-.%				
Total Global Equity ex-AIM & ex-Currency overlay²¹	104.4	-15.0%	-25.6%	0.6%	7.3%	4.7%				
Equity Policy Index ²²		-13.3%	-24.0%	1.5%	7.7%	4.7%				
Value Added		-1.7%	-1.6%	-0.9%	-0.4%	0.0%				

¹⁶ Includes domestic equity, international equity, corporate governance, currency overlay, and the RM ARS program. The developed small cap, large and mid cap, and emerging transitions accounts are not included in global equity. In addition, there may be rounding differences.

¹⁷ The Equity Policy Index return equals the benchmark returns for the domestic equity and international equity segments weighted at policy allocation target percentages.

¹⁸ The PERS Custom Index currently represents the FTSE All World ex US Index. This Index is linked historically to its prior benchmarks.

¹⁹ The RM ARS Policy consists of the Merrill Lynch 1-Year Treasury Note +5% and is linked historically to its prior benchmark.

²⁰ The Corporate Governance Index return equals the return for each manager's benchmark weighted at the current target asset allocation.

²¹ Includes domestic equity, international equity, corporate governance, and the RM ARS program.

²² The Equity Policy Index return equals the benchmark returns for the domestic equity and international equity segments weighted at policy allocation target percentages.

²³ VAR (Value at Risk) measures how much the portfolio might decrease over a 12 month period in extreme cases. The VAR estimate shows how much the portfolio value might fall in the worst 5% of 12 month periods. VAR is calculated using total risk (standard deviation) and market value ((Expected Return - (1.65 X SD)) X MV).

²⁴ PAR (Performance at Risk) measures how much the portfolio might underperform its benchmark over a 12 month period in extreme cases. This PAR shows how much the portfolio might underperform in the worst 5% of 12 month periods. PAR is calculated using excess risk (tracking error) and market value (1.65 X TE X MV).

²⁵ The "Information Ratio" calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per unit of excess risk ventured. The Sharpe ratio or reward-to-variability ratio is a measure of the mean excess return per unit of risk in an investment strategy. The Sharpe ratio is used to characterize how well the return of an asset compensates the investor for the risk taken.

* Does not include developed small cap, developed large- mid cap, and emerging market transactions accounts.

Total Equity Review for PERF (continued)

Comments Regarding Recent Equity Segment Performance

Helped or Equaled Performance:

- ◆ **Internal PERS 2500:** The System's internal PERS 2500 index fund outperformed against the equity policy index. The fund's performance matched that of its custom benchmark which is consistent with its objective.
- ◆ **RM ARS Program:** The System's RM ARS program outperformed the equity policy for the quarter.
- ◆ **Dynamic Completion Fund (DCF):** The DCF portfolio outperformed the equity policy return for the quarter and the one year and three year periods.
- ◆ **Environmental Domestic Equity:** The environmental domestic equity outperformed against the total equity policy for the quarter.
- ◆ **Domestic Equity MDP:** The System's domestic MDP program outperformed against the total equity policy.
- ◆ **Domestic Internal Micro-Cap Exposure:** The internal micro-cap portfolio outperformed the equity policy index over the quarter.

Impeded Performance:

- ◆ **International Equity Exposure:** The System's international equity managers underperformed against the equity policy for the quarter but has outperformed for the three year, five year, and ten year periods.
- ◆ **Internal International Equity Index:** The System's internally managed international equity index underperformed the equity policy index over the quarter. The index has added value over longer periods.
- ◆ **Emerging Markets Exposure:** The System's emerging market managers underperformed the equity policy index. The emerging markets segment outpaced the total equity return for the three year and five year periods.
- ◆ **Corporate Governance:** The corporate governance program underperformed against the total equity policy index and has underperformed for all listed time periods.
- ◆ **International Equity MDP:** The international equity MDP program underperformed the total equity policy this quarter.
- ◆ **International Environmental Program:** The international environmental program underperformed the total equity policy this quarter.

Total Equity Review for PERF - U.S. Equity Manager Performance

	<u>Market Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10-Year</u>	<u>Date</u>
US Equity Composite²⁶	54.3	-9.5%	-21.9%	0.2%	5.5%	3.8%	12/79
PERS Wilshire 2500 Index		-8.9%	-21.2%	0.6%	5.8%	3.6%	
Value Added		-0.6%	-0.7%	-0.4%	-0.3%	0.2%	
Total Internal Equity²⁶	44.9	-9.0%	-21.2%	0.6%	5.7%	3.8%	6/88
Internal PERS 2500	36.1	-8.9%	-21.0%	0.8%	5.9%	3.8%	12/91
PERS Wilshire 2500		-8.9%	-21.2%	0.6%	5.8%	3.6%	
Tracking Error		0.0%	0.2%	0.2%	0.1%	0.2%	
Dynamic Completion Fund (DCF)	3.1	-8.2%	-17.7%	1.8%	5.4%	3.7%	9/98
Custom Benchmark		-8.1%	-17.8%	1.9%	5.4%	3.2%	
Tracking Error		-0.1%	0.1%	-0.1%	0.0%	0.5%	
Domestic Enhanced Index Strategy	4.0	-11.3%	-23.0%	0.3%	6.8%	-.%	3/01
PERS Wilshire 2500		-8.9%	-21.2%	0.6%	5.8%	-.%	
Value Added		-2.4%	-1.8%	-0.3%	1.0%	-.%	
Internal Domestic Fundamental	0.9	-6.4%	-24.4%	-.%	-.%	-.%	6/06
PERS Wilshire 2500		-8.9%	-21.2%	-.%	-.%	-.%	
Value Added		2.5%	-3.2%	-.%	-.%	-.%	
Internal Microcap	0.6	-6.7%	-27.9%	-4.4%	3.7%	-.%	9/03
Custom Benchmark		-7.8%	-32.0%	-6.5%	3.2%	-.%	
Tracking Error		1.1%	4.1%	2.1%	0.5%	-.%	
Total External Domestic Equity	7.9	-11.9%	-24.6%	-1.4%	4.6%	4.5%	6/87
Total Active External Mainstream	2.4	-14.8%	-27.7%	-1.9%	4.3%	3.7%	6/98
Total Domestic Ext. Enhanced	1.5	-8.3%	-22.5%	-0.8%	-.%	-.%	9/04
Custom Benchmark		-8.8%	-22.3%	-0.1%	-.%	-.%	
Value Added		0.5%	-0.2%	-0.7%	-.%	-.%	
Long/Short	2.2	-10.3%	-22.6%	-.%	-.%	-.%	6/07
Custom Benchmark		-9.3%	-22.3%	-.%	-.%	-.%	
Value Added		-1.0%	-0.3%	-.%	-.%	-.%	
FIS Fund of Funds	0.3	-11.7%	-.%	-.%	-.%	-.%	3/08
Custom Benchmark		-8.2%	-.%	-.%	-.%	-.%	
Value Added		-3.5%	-.%	-.%	-.%	-.%	
Leading Edge Fund of Funds	0.3	-12.3%	-.%	-.%	-.%	-.%	3/08
Custom Benchmark		-8.7%	-.%	-.%	-.%	-.%	
Value Added		-3.6%	-.%	-.%	-.%	-.%	
Total Domestic Equity MDP	0.9	-13.0%	-22.7%	-0.5%	5.7%	-.%	12/00
Total Domestic Equity MDP II	0.5	-11.6%	-22.7%				3/07
Total Domestic Equity MDP Ventures	0.0	0.0%	11.2%	117.8%	100.0%	-.%	3/01
Environmental Domestic Equity	0.3	-11.9%	-21.7%	-0.9%	-.%	-.%	3/05
Custom Benchmark		-9.2%	-22.3%	0.0%	-.%	-.%	
Value Added		-2.7%	0.6%	-0.9%	-.%	-.%	
Domestic Equity Active Manager Program²⁷							
Active External Managers + Enh + DCF	9.4	-10.6%	-22.9%	-0.6%	4.6%	3.7%	6/98
PERS Wilshire 2500		-8.9%	-21.2%	0.6%	5.8%	3.6%	
Value Added of Active Mgr Program		-1.7%	-1.7%	-1.2%	-1.2%	0.1%	

²⁶ Composites may not add up exactly due to rounding. The US Equity Composite includes LM Capital which is a fixed income manager that has been allocated to the equity segment. And Atlantic, Smith Breeden, and WAMCO which had their assets move internally.

²⁷ This composite combines components listed above to present a comparison of the total domestic equity active manager program versus its benchmark.

Total Equity Review for PERF - International Equity Manager Performance

	<u>Market</u> <u>Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10-Year</u>	<u>Date</u>
Non-US Equity Composite ²⁸	39.2	-20.2%	-29.5%	2.5%	11.0%	6.2%	6/89
<i>PERS Custom Index</i> ²⁹		-21.0%	-29.4%	2.6%	11.3%	6.6%	
<i>Value Added</i>		0.8%	-0.1%	-0.1%	-0.3%	-0.4%	
Total Intl Equity ex-AIM & ex-Currency overlay ³²	36.9	-21.5%	-30.0%	2.5%	11.4%	6.6%	
<i>Custom Benchmark</i> ³³		-21.3%	-22.3%	2.6%	11.3%	6.6%	
<i>Value Added</i>		-0.2%	-7.7%	-0.1%	0.1%	0.0%	
Int'l Active Equity + MDP + Enh	6.6	-24.1%	-32.6%	1.4%	10.2%	5.7%	3/89
<i>Custom Benchmark</i>		-21.7%	-29.7%	3.0%	11.6%	6.6%	
<i>Value Added</i>		-2.4%	-2.9%	-1.6%	-1.4%	-0.9%	
Int'l Emerging Markets	4.2	-24.6%	-29.9%	7.2%	20.3%	-.-%	9/02
<i>CalPERS FTSE All Emerging Index (with Tobacco)</i>		-26.4%	-31.8%	7.9%	18.4%	-.-%	
<i>Value Added</i>		1.8%	1.9%	-0.7%	1.9%	-.-%	
Total Int'l MDP ³⁰	0.1	-18.8%	-25.0%	3.4%	10.2%	-.-%	6/00
Total Int'l Ventures	0.0	0.0%	5.2%	35.4%	39.3%	-.-%	3/02
Fundamental Developed Intl	0.8	-18.7%	-29.7%	-.-%	-.-%	-.-%	3/07
<i>CalPERS FTSE Developed Index</i>		-20.6%	-29.5%	-.-%	-.-%	-.-%	
<i>Value Added</i>		1.9%	-0.2%	-.-%	-.-%	-.-%	
Structured Emerging Markets	0.1	-22.9%	-28.2%	-.-%	-.-%	-.-%	6/07
<i>CalPERS FTSE All Emerging (w/o Tobacco)</i>		-24.5%	-29.5%	-.-%	-.-%	-.-%	
<i>Value Added</i>		1.6%	1.3%	-.-%	-.-%	-.-%	
Fundamental Emerging Markets	0.1	-22.9%	-28.6%	-.-%	-.-%	-.-%	6/07
<i>CalPERS FTSE All Emerging (w/o Tobacco)</i>		-24.5%	-29.5%	-.-%	-.-%	-.-%	
<i>Value Added</i>		1.6%	0.9%	-.-%	-.-%	-.-%	
External International Equity Transition	0.6						
Internal International Equity ³¹	25.3	-20.7%	-29.5%	2.2%	-.-%	-.-%	6/05
<i>Custom Benchmark</i>		-20.6%	-29.5%	2.1%	-.-%	-.-%	
<i>Tracking Error</i>		-0.1%	0.0%	0.1%	-.-%	-.-%	
Environmental International	0.2	-19.4%	-28.3%	-.-%	-.-%	-.-%	3/06
<i>Custom Benchmark</i>		-20.6%	-29.4%	-.-%	-.-%	-.-%	
<i>Value Added</i>		1.2%	1.1%	-.-%	-.-%	-.-%	

²⁸ Composite may not add up exactly due to rounding. The Non-US Equity Composite includes the effect of the currency hedging program, but the benchmark is unhedged. The "Total Intl Equity ex-AIM & ex-Currency overlay" composite at the bottom of the page presents the results without the effects of the currency hedge.

²⁹ The PERS Custom Index currently represents the FTSE All World ex US Index. This Index is linked historically to its prior benchmarks.

³⁰ Total MDP market value is also included in the International Active Equity + MDP Composite.

³¹ The currency overlay portfolios' values are included in the international equity index. This account is unitized and is included in multiple plans.

³² Includes international equity ex-currency overlay.

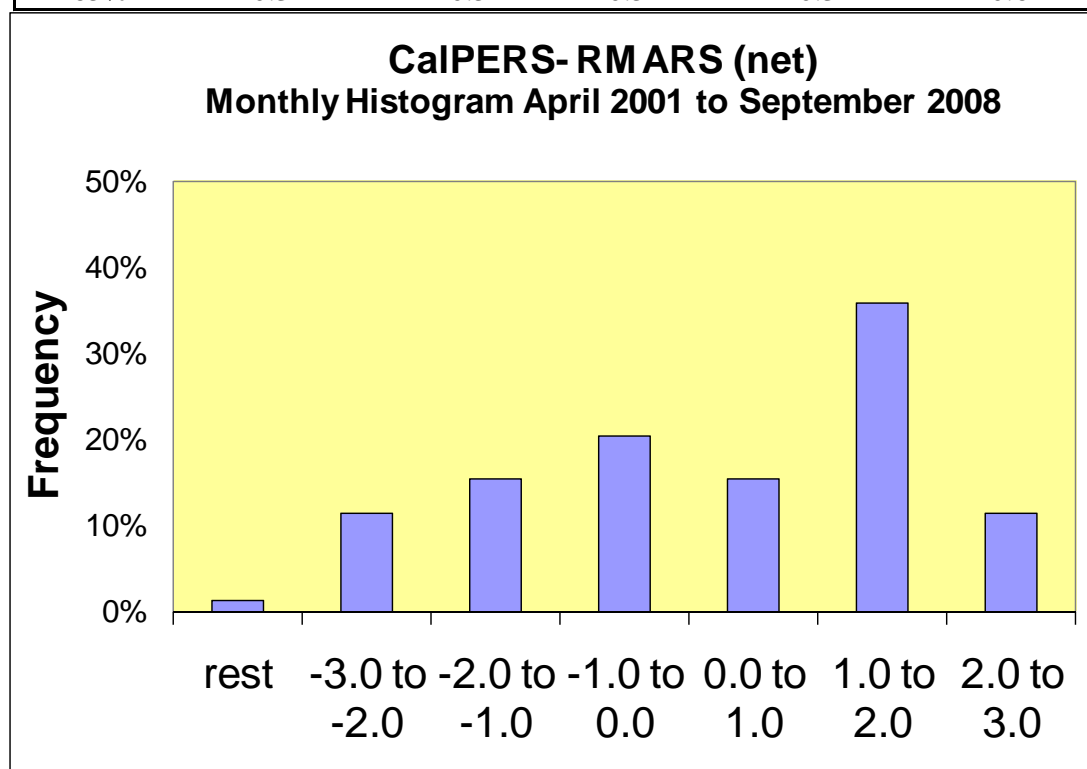
³³ The custom benchmark excludes currency overlay.

RM ARS Program Review for PERF Period Ended 9/30/08

	<u>Market Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>5-Year</u> <u>Info</u> ³⁵	<u>5-Year</u> <u>Up</u> <u>Capture</u>	<u>5-Year</u> <u>Down</u> <u>Capture</u>	<u>5-Year</u> <u>Sharpe</u> ³⁶	<u>5-Year</u> <u>Sortino</u> ³⁶
Total RM ARS Program	7.1	-8.7%	-9.9%	3.6%	6.4%	-0.4	0.3	-0.3	0.4	0.5
Total Direct Investments	5.7	-9.5%	-10.9%	3.8%	6.5%					
Total Fund of Funds	1.4	-5.4%	-5.5%	-1.0%	-1.0%					
Policy Index ³⁴		2.3%	9.8%	9.9%	9.9%					
Value Added		-11.0%	-19.7%	-6.3%	-3.5%					
ML 1-Year Treasury Note Index + 5% Index		2.3%	9.8%	9.9%	8.5%					
HFRI Fund of Funds Index		-9.6%	-10.0%	3.2%	5.0%					

RM ARS Program Characteristics Period Ended 9/30/08

<u>Rolling Correlations vs. Index</u>					
<u>Percentage</u> <u>of positive</u> <u>Months</u>	<u>Beta vs.</u> <u>S&P 500</u>	<u>DJ</u> <u>W5000</u> ²⁰	<u>PERS</u> <u>2500</u> ²⁰	<u>Lehman Long</u> <u>Liability</u> <u>Index</u>	<u>FTSE AW</u> <u>X US</u> ²⁰
65%	0.3	0.5	0.5	-0.3	0.6



³⁴ The RM ARS Policy consists of the Merrill Lynch 1-Year Treasury Note + 5% and is linked historically to its prior benchmark.

³⁵ The "Information Ratio" calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per risk ventured.

³⁶ The Sortino Ratio is measure of a risk-adjusted return of an investment asset. It is an extension of the Sharpe Ratio. While the Sharpe ratio takes into account any volatility, in return of an asset, Sortino ratio differentiates volatility due to up and down movements. The up movements are considered desirable and not accounted in the volatility. The Sharpe ratio or reward-to-variability ratio is a measure of the mean excess return per unit of risk in an investment strategy. The Sharpe ratio is used to characterize how well the return of an asset compensates the investor for the risk taken.

RM ARS Program Review for PERF

- ◆ **Beta vs. S&P 500:** This measures the amount of stock market risk in the portfolio. A beta of 1.0 would indicate that the portfolio's performance should closely track the stock market, while a beta higher than 1.0 implies greater-than-market risk and possibly leverage. The portfolio's beta is 0.3 which implies a semi-weak relationship to stock market return, which is appropriate for this program.
- ◆ **Correlation vs. various indices:** We have calculated the historical correlation between the RM ARS and CalPERS' other main asset classes. Over a market cycle, the RM ARS should function independently of the other asset classes and have a low correlation to directional movements in all other asset classes. Since inception, the performance of both the RM ARS and the stock market has been generally positive, resulting in a moderately high correlation.
- ◆ **Histogram:** The RM ARS is designed to generate small amounts of return on a consistent basis. This chart shows the frequency of monthly performance results. A significant number of outlying monthly performance returns would indicate insufficient risk controls. We believe that the distribution of monthly returns is as expected, given the youthfulness of the program, and has significantly more positive months than negative months, which is favorable.

Corporate Governance Review

	<u>Market</u> <u>Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>Date</u>
Total Corporate Governance	4.3	-14.2%	-28.7%	-2.9%	6.4%	12/98
<i>Policy Index</i>		-13.1%	-24.7%	-0.3%	7.1%	
<i>Value Added</i>		-1.1%	-4.0%	-2.6%	-0.7%	
Total Domestic Corporate Governance	2.1	-5.0%	-20.2%	-2.3%	6.9%	12/98
<i>Policy Index</i>		-6.6%	-18.4%	1.5%	6.1%	
<i>Value Added</i>		1.6%	-1.8%	-3.8%	0.8%	12/98
Total Int'l Corporate Governance	2.2	-21.3%	-35.3%	-3.3%	6.0%	12/98
<i>Policy Index</i>		-18.6%	-30.3%	-2.1%	7.8%	
<i>Value Added</i>		-2.7%	-5.0%	-1.2%	-1.8%	12/98

- ◆ The System's total corporate governance program underperformed its objective. The international corporate governance subtracted value as international markets were impacted by the liquidity crisis.

Total Fixed Income Review for PERF

Periods Ended 9/30/08

Fixed Income Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
US Fixed Income	21.5%	20.5%	+1.0%
Non US Fixed Income	2.2	2.0	+0.2%

Fixed Income Segment Performance

	Market Value	Qtr	1 Year	3 Year	5 Year	10 Year	VaR ⁴⁰	PAR ⁴¹	5-year Sharpe Ratio ⁴²	5-year Info Ratio ⁴²
Total Fixed Income	50.7	-5.2%	-1.7%	2.8%	4.0%	5.3%	\$2.5 bil	0.1%	0.1	-0.1
Fixed Income Policy Index ³⁷		-1.8%	2.9%	3.7%	4.2%	5.4%			0.2	0.0
Value Added		-3.4%	-4.6%	-0.9%	-0.2%	-0.1%				
U.S. Fixed Income	46.0	-5.2%	-2.3%	2.6%	3.8%	5.4%			0.1	-0.1
Policy Index ³⁸		-1.6%	2.7%	3.5%	4.1%	5.5%			0.2	0.0
Value Added		-3.6%	-5.0%	-0.9%	-0.3%	-0.1%				
Non-U.S. Fixed Income	4.7	-5.7%	3.0%	4.5%	5.2%	4.5%			0.2	-0.4
Policy Index ³⁹		-4.2%	4.5%	5.4%	5.5%	5.2%			0.2	0.0
Value Added		-1.5%	-1.5%	-0.9%	-0.3%	-0.7%				

Comments Regarding Recent Fixed Income Segment Performance

Helped Performance:

- ◆ **Mortgage Bonds:** CalPERS' mortgage portfolio outperformed the overall fixed income segment. This segment has equaled or outperformed over the three and five year periods.
- ◆ **Special Investments:** The special investments outperformed versus the fixed income policy index over the quarter and have outperformed or equaled the fixed income policy index over the one year, three year, and five year periods.
- ◆ **Treasury Bonds:** Treasury bonds outperformed versus the fixed income policy index for the quarter. The portfolio has underperformed the fixed income policy over the one, three, five year, and ten year time periods.

³⁷ The Fixed Income Policy Index return equals the benchmark returns for domestic and international fixed income components weighted at policy allocation target percentages.

³⁸ The Domestic Fixed Income Policy Index consists of the Barclays Long Liability Index and is linked historically to its prior benchmark.

³⁹ The Non-US Fixed Income Policy Index consists of the Barclays International Fixed Income and is linked historically to its prior benchmark.

⁴⁰ VAR (Value at Risk) measures how much the portfolio might decrease over a 12 month period in extreme cases. The VAR estimate shows how much the portfolio value might fall in the worst 5% of 12 month periods. VAR is calculated using total risk (standard deviation) and market value ((Expected Return - (1.65 X SD)) X MV).

⁴¹ PAR (Performance at Risk) measures how much the portfolio might underperform its benchmark over a 12 month period in extreme cases. This PAR shows how much the portfolio might underperform in the worst 5% of 12 month periods. PAR is calculated using excess risk (tracking error) and market value (1.65 X TE X MV).

⁴² The "Information Ratio" calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per risk ventured. The Sharpe ratio or reward-to-variability ratio is a measure of the mean excess return per unit of risk in an investment strategy. The Sharpe ratio is used to characterize how well the return of an asset compensates the investor for the risk taken.

Impeded Performance:

- ◆ **Corporate Bonds:** CalPERS' corporate bonds portfolio underperformed the overall fixed income segment for the quarter.
- ◆ **International Fixed Income:** The System's external international bond segment underperformed the total fixed income policy for the quarter. The portfolio has outperformed versus the fixed income policy over the one year, three year, and five year periods.
- ◆ **Internal Sovereign Bonds:** The System's Sovereign portfolio, which holds non-US government bonds that are U.S. Dollar denominated, underperformed versus the total fixed income policy over the quarter but has outperformed over the one, three, five and ten year periods.
- ◆ **External High Yield Bonds:** The external high yield bond managers underperformed the fixed income policy index during the quarter. The segment has added value over the long term, led by the bank loan segment.
- ◆ **Internal High Yield Bonds:** CalPERS' internal high yield portfolio underperformed the fixed income policy index over the quarter. Also, the portfolio has outperformed over the five year period.

Fixed Income Performance

	Market Value	Qtr	1 Year	3 Year	5 Year	10 Year
Total Fixed Income	50.7	-5.2%	-1.7%	2.8%	4.0%	5.3%
Fixed Income Policy Index ⁴³		-1.8%	2.9%	3.7%	4.2%	5.4%
Value Added		-3.4%	-4.6%	-0.9%	-0.2%	-0.1%
Total Internal Bonds*	42.3	-5.6%	-2.0%	2.4%	3.5%	5.2%
Mortgage Bonds	15.8	-0.7%	2.9%	4.2%	4.2%	5.1%
Long Duration	4.0	-4.1%	-1.4%	2.6%	-.%	-.%
Corporate Bonds	12.7	-14.9%	-14.1%	-1.6%	2.1%	4.5%
U.S. Government	8.6	2.5%	9.9%	6.3%	4.4%	-.%
Sovereign Bonds ⁴⁴	1.1	-1.9%	4.7%	4.8%	5.7%	7.7%
Duration/SEC Allocation	1.0	-17.4%	-17.2%	-.%	-.%	-.%
Custom Benchmark ⁴⁵		-1.6%	2.7%	3.5%	4.1%	5.5%
Opportunistic ⁴⁶	2.4	-22.0%	-31.8%	-0.2%	8.3%	-.%
Internal High Yield Bonds*	0.5	-3.9%	6.8%	11.6%	15.0%	-.%
External High Yield*	1.0	-6.0%	-14.3%	2.1%	6.5%	-.%
Citigroup High Yield Cash Pay		-7.9%	-9.6%	1.3%	4.5%	-.%
Special Investments	1.0	1.0%	5.6%	5.4%	4.9%	5.3%
External International Fixed Income	4.7	-5.7%	3.0%	4.5%	5.2%	4.5%
Custom Benchmark ⁴⁷		-4.2%	4.5%	5.4%	5.5%	5.2%
Value Added		-1.5%	-1.5%	-0.9%	-0.3%	-0.7%
Currency Overlay ⁴⁸						
Pareto Partners	4.1	-14.1%	-27.3%	0.8%	9.0%	5.5%
Custom Benchmark		-13.8%	-28.1%	-5.5%	3.7%	2.4%
Value Added		-0.3%	0.8%	6.3%	5.3%	3.1%
State Street London	2.8	-16.2%	-29.1%	11.8%	15.4%	9.1%
Custom Benchmark		-13.8%	-28.1%	-5.5%	3.7%	2.4%
Value Added		-2.4%	-1.0%	17.3%	11.7%	6.7%
Internal Currency Overlay	3.1	-13.9%	-28.3%	0.3%	8.5%	-.%
Custom Benchmark		-13.8%	-28.1%	-5.5%	3.7%	2.4%
Value Added		-0.1%	-0.2%	5.8%	4.8%	-.%
Short Term						
High Quality LIBOR*	14.9	-0.6%	0.8%	3.6%	3.0%	-.%
Custom Benchmark		0.5%	2.9%	4.2%	3.4%	-.%
Value Added		-1.1%	-2.1%	-0.6%	-0.4%	-.%
Short Duration LIBOR*	2.1	-1.2%	-4.7%	1.6%	-.%	-.%
Custom Benchmark		0.5%	2.9%	4.2%	-.%	-.%
Value Added		-1.7%	-7.6%	-2.6%	-.%	-.%

⁴³ The Fixed Income Policy Index return equals the benchmark returns for domestic and international fixed income components weighted at policy allocation target percentages.

⁴⁴ The Internal Sovereign Bond market value is also included in the Internal Treasury Bond market value.

⁴⁵ The custom benchmark consists of the Barclays Long Liability Index. Prior of 3Q 2004 the benchmark was Citigroup LPF.

⁴⁶ Opportunistic includes internal and external high yield. Internal High Yield's market value is included in both the Total Internal Bonds and the Opportunistic Market Values.

⁴⁷ The custom benchmark consists of the Barclays International Fixed Income and is linked historically to its prior benchmark.

⁴⁸ Currency overlay's performance is rolled into the intl equity comp., but is shown here since it is managed by fixed income managers.

* These portfolios and/or composites are unitized and are included across multiple plans.

Total Inflation Linked Performance for PERF Period Ended 9-30-08

Inflation Linked Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Inflation Linked	2.0%	2.0%	0.0%

Inflation Linked Performance

	Market Value	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>
Inflation Linked	4.2	-10.7%	9.2%	-.-%	-.-%	-.-%
<i>CPI + 400 BP ***</i>		2.1%	9.4%	-.-%	-.-%	-.-%
<i>Value Added</i>		-12.8%	-0.2%	-.-%	-.-%	-.-%
Commodities Collateral	1.2	0.6%	1.2%	-.-%	-.-%	-.-%
<i>Blended LIBOR Fed Fund Index</i>		0.5%	2.9%	-.-%	-.-%	-.-%
<i>Value Added</i>		0.1%	-1.7%	-.-%	-.-%	-.-%
Commodities Overlay**	0.0	-28.7%	11.5%	-.-%	-.-%	-.-%
<i>Goldman Sachs Commodity Excess Return Index</i>		-28.9%	10.1%	-.-%	-.-%	-.-%
<i>Value Added</i>		0.2%	1.4%	-.-%	-.-%	-.-%
Forestland*	1.6	0.4%	14.0%	-.-%	-.-%	-.-%
<i>CPI + 500 BP ***</i>		2.3%	10.4%	-.-%	-.-%	-.-%
<i>Value Added</i>		-1.9%	3.6%	-.-%	-.-%	-.-%
Inflation Linked Bonds	1.4	-5.6%	-.-%	-.-%	-.-%	-.-%
<i>Barclays Inflation Linked Bonds Index</i>		-5.6%	-.-%	-.-%	-.-%	-.-%
<i>Value Added</i>		0.0%	-.-%	-.-%	-.-%	-.-%
Infrastructure*	0.1	-3.5%	-6.6%	-.-%	-.-%	-.-%
<i>CPI + 500 BP ***</i>		2.3%	10.4%	-.-%	-.-%	-.-%
<i>Value Added</i>		-5.8%	-17.0%	-.-%	-.-%	-.-%

- ◆ CalPERS Inflation Linked performance underperformed its benchmark of the CPI + 400 bp for the quarter.

* Are reported on a quarter-lag.

** The overlay portfolio is a derivatives portfolio which has no market value but a notional value approximately equal to the size of the commodities collateral.

*** Are reported on a month-lag.

Total Real Estate Review for PERF Period Ended 9/30/08

Real Estate Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Real Estate	10.2%	10.0%	0.2%

Real Estate Segment Performance

	Market Value	Qtr	1 Year	3 Year	5 Year	10 Year	VaR ⁵¹	PAR ⁵²	5-year Sharpe Ratio ⁵³
Total Real Estate ⁴⁹	21.7	-13.7%	-14.4%	7.4%	14.8%	12.5%	\$4.2 bil	0.1%	1.1
Policy Index ⁵⁰		-0.1%	8.5%	14.7%	14.6%	12.2%			4.2
TUCS Real Estate Median		-0.7%	1.8%	11.5%	14.2%	12.4%			
Total Core Real Estate	11.2	-1.4%	9.7%	17.4%	21.7%	16.2%			
Core Real Estate Private	11.2	-1.4%	9.7%	17.3%	21.6%	16.1%			
Total Special Real Estate	10.5	-24.0%	-33.2%	-1.8%	8.0%	7.6%			

- ◆ CalPERS' real estate composite produced a return of -13.7% during the quarter, underperforming the lagged NCREIF Property Index return of -0.1%. Over the long term the composite has added value and outperformed both the NCREIF and the TUCS real estate median.

⁴⁹ Real estate total returns are net of investment management fees and all expenses, including property level operations expenses netted from property income. This method differs from GASB 31, which requires all investment expenses be identified for inclusion in the System's general purpose financial statements.

⁵⁰ The performance of CalPERS' real estate segment is lagged one quarter. The policy index changed in July 2008. The new benchmark is 90% of NCREIF + 200% and 10% of FTSE NAREIT Global Index.

⁵¹ VAR (Value at Risk) measures how much the portfolio might decrease over a 12 month period in extreme cases. The VAR estimate shows how much the portfolio value might fall in the worst 5% of 12 month periods. VAR is calculated using total risk (standard deviation) and market value ((Expected Return - (1.65 X SD)) X MV).

⁵² PAR (Performance at Risk) measures how much the portfolio might underperform its benchmark over a 12 month period in extreme cases. This PAR shows how much the portfolio might underperform in the worst 5% of 12 month periods. PAR is calculated using excess risk (tracking error) and market value (1.65 X TE X MV).

⁵³ The Sharpe ratio or reward-to-variability ratio is a measure of the mean excess return per unit of risk in an investment strategy. The Sharpe ratio is used to characterize how well the return of an asset compensates the investor for the risk taken.

AIM Program Review for PERF Period Ended 9/30/08

AIM Program Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
AIM	12.2%	9.5%	+2.7%

AIM Segment Performance

	Market Value	Qtr	1 Year	3 Year	5 Year	10 Year	VaR ⁵⁶	PAR ⁵⁷	5-year Sharpe Ratio ⁵⁸
AIM Program ⁵⁴	26.1	-2.3%	4.7%	18.8%	18.3%	10.9%	\$7.4 bil	0.1%	2.0
Policy Index ⁵⁵		2.7%	13.0%	16.1%	16.1%	6.7%			0.6
Value Added		-5.0%	-8.3%	2.7%	2.2%	4.2%			
Long-Term Policy						8.6%			
PERS Wilshire 2500 Index ex Tob. + 3%		-8.2%	-18.8%	4.1%	10.1%	8.5%			
AIM Partnership Investments	26.1	-2.3%	4.9%	19.0%	18.4%	10.5%			
AIM Distribution Stock	0.0	-6.3%	-40.3%	-9.9%	3.0%	-.%			

- ◆ The AIM program underperformed its objective over the quarter but has outperformed for the three year, five year, and ten year periods.

Cash Program Review for PERF

Cash Program Allocation

Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation	Target Asset Allocation	Difference
Cash	1.9%	0.0%	+1.9%

Cash Segment Performance

	Market Value	Qtr	1 Year	3 Year	5 Year	10 Year
Equitized Cash Composite ⁵⁹	4.1	-11.1%	-17.8%	-2.9%	-1.0%	1.7%
Policy Index ⁶⁰		0.6%	3.4%	4.5%	3.4%	3.7%
Value Added		-11.7%	-21.2%	-7.4%	-4.4%	-2.0%
Total Cash	4.1	0.6%	3.6%	4.7%	3.6%	4.0%
Cash Equitization	0.0	-16.7%	-29.0%	-.%	-.%	-.%

⁵⁴The performance of CalPERS' AIM segment is lagged one quarter.

⁵⁵ The AIM Policy Index consists of the Custom Young Fund and is linked historically to its prior benchmark.

⁵⁶ VAR (Value at Risk) measures how much the portfolio might decrease over a 12 month period in extreme cases. The VAR estimate shows how much the portfolio value might fall in the worst 5% of 12 month periods. VAR is calculated using total risk (standard deviation) and market value ((Expected Return - (1.65 X SD)) X MV).

⁵⁷ PAR (Performance at Risk) measures how much the portfolio might underperform its benchmark over a 12 month period in extreme cases. This PAR shows how much the portfolio might underperform in the worst 5% of 12 month periods. PAR is calculated using excess risk (tracking error) and market value (1.65 X TE X MV).

⁵⁸ The Sharpe ratio or reward-to-variability ratio is a measure of the mean excess return per unit of risk in an investment strategy. The Sharpe ratio is used to characterize how well the return of an asset compensates the investor for the risk taken.

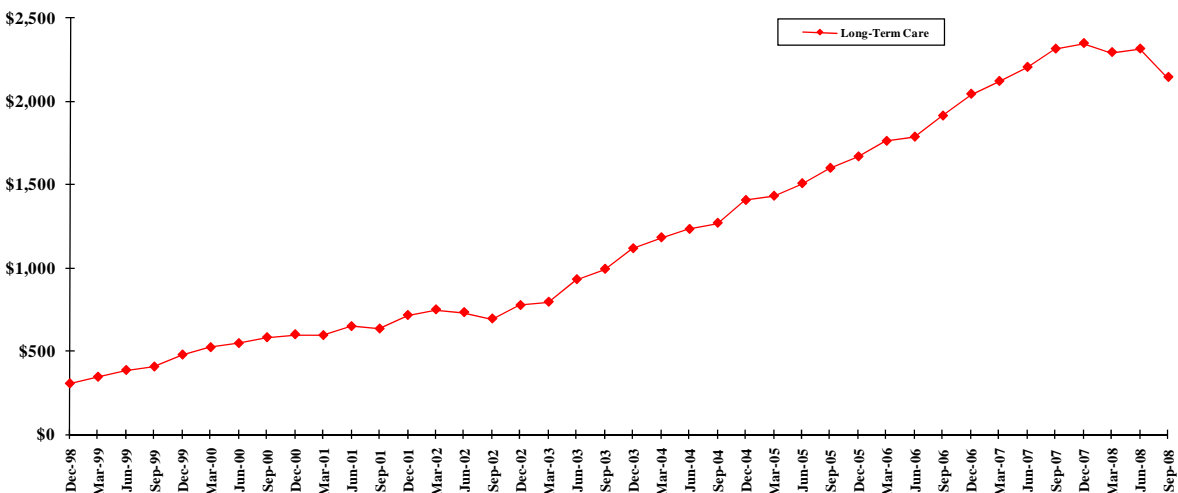
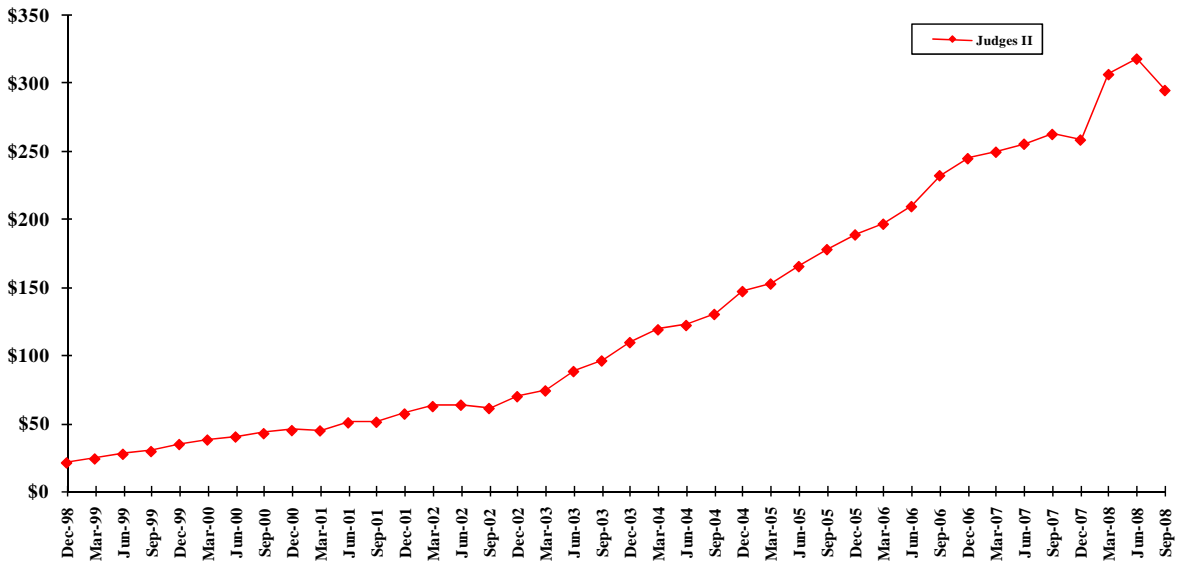
⁵⁹ Cash is equitized using equity index futures in proportion to the Total Equity Policy Weights.

⁶⁰ The Custom STIF Policy Index is a custom index.

Affiliate Fund Information

Affiliate Fund Performance Period Ended 9/30/08

Growth in Assets (in \$Millions)



Total Fund Performance Results

Total Fund Performance Periods Ended September 30, 2008

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Judges II	\$295.4 mil	-8.9%	-15.6%	2.1%	5.9%	4.8%
<i>Weighted Policy Benchmark</i> ⁶¹		-7.1	-14.2	2.6	6.0	4.9
Long Term Care ("LTC")	\$2,145.3 mil	-9.3	-14.4	2.0	5.7	4.7
<i>Weighted Policy Benchmark</i>		-7.7	-12.9	2.4	5.8	4.8
Annuitants Health Care	\$648.0 mil	-9.9	-16.6	-.	-.	-.
<i>Weighted Policy Benchmark</i>		-9.5	-18.0	-.	-.	-.
<i>TUCS Public Fund Median</i> ⁶²		-8.2	-14.4	2.7	6.4	5.6

Asset Allocation

Judges II Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation (%)	Target Asset Allocation (%)	Difference
US Equities	34.2	34.0	0.2
Int'l Equity	19.2	20.0	-0.8
US Bonds	35.7	36.0	-0.3
Real Estate	10.5	10.0	0.5
Cash	0.4	0.0	0.4
Total	100.0	100.0	0.0

LTC Asset Allocation: Actual versus Target Weights

Asset Class	Actual Asset Allocation (%)	Target Asset Allocation (%)	Difference
US Equities	29.4	29.0	0.4
Int'l Equity	18.5	19.0	-0.5
US Bonds	29.4	30.0	-0.6
High Yield	10.1	10.0	0.1
TIPS	7.3	7.0	0.3
Real Estate	5.3	5.0	0.3
Cash	0.0	0.0	0.0
Total	100.0	100.0	0.0

⁶¹ The weighted policy benchmark returns for Judges II and LTC are based on asset class index returns weighted by asset class policy targets.

⁶² The Trust Universe Comparison Service (TUCS) is a universe of over 1,000 client portfolios returns subdivided by client type and asset class.

Commentary

- ◆ For the quarter ended September 30, 2008, the Judges II generated a total return of -8.9%, and underperformed its weighted policy benchmark's return of -7.1%. The Plan's asset allocation effect was positive this quarter, with Judges II having an underweight in international equity, the worst performing asset class in both absolute and relative terms. However, the large underperformance produced by the fixed income and real estate portfolios more than outweighed the asset allocation gains and were this quarter's primary performance detractors. Judges II has trailed its policy benchmark for all other measured periods.
- ◆ The LTC generated a third quarter return of -9.3% and underperformed its weighted policy benchmark's return of -7.7%. Similar to Judges II, the underperformance by LTC's core fixed income and real estate portfolios were the main detractors this quarter. Over the one-year and longer periods, the LTC continues to lag its policy benchmark.
- ◆ At the end of the quarter, Judges II was underweight in international equity and fixed income while overweight in U.S. equity, real estate and cash.
- ◆ The LTC had an overweight in U.S. equity, high yield, TIPS and real estate while underweight in international equity and core fixed income.

U.S. Equity Performance

U.S. Equity Performance Periods Ended September 30, 2008

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Judges II U.S. Equity	\$101.1 mil	-8.5%	-22.3%	0.1%	4.9	2.9%
<i>Custom Benchmark</i> ⁶³		-8.5	-22.3	0.0	4.9	2.9
LTC U.S. Equity	\$629.7	-8.5	-22.3	0.1	5.0	2.9
<i>Custom Benchmark</i> ⁶³		-8.5	-22.3	0.0	4.9	2.9
<i>TUCS Equity Median</i>		-8.8	-21.0	0.5	6.7	5.5

Commentary

- ◆ The Judges II and LTC equity funds, which are invested in the Custom S&P 500 ex-Tobacco Index Fund, generated a return of -8.5% for the quarter and matched their custom benchmark. The funds have added value over the long term and continue to track very closely to the S&P 500 ex-Tobacco Index.

⁶³ A custom tobacco-free S&P 500 is used as the benchmark for the U.S. equity segments of Judges II and LTC starting with February 2001 performance. Prior of that the benchmark was the S&P 500 Index.

International Equity Performance

International Equity Performance Periods Ended September 30, 2008

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Judges II Int'l Equity	\$56.8 mil	-20.7%	-29.6%	2.2%	10.5%	5.5%
<i>Custom Benchmark</i> ⁶⁴		-20.6	-29.5	2.1	10.3	5.3
LTC Int'l Equity	\$397.5	-20.7	-29.6	1.9	10.3	5.5
<i>Custom Benchmark</i> ⁶⁴		-20.6	-29.5	2.1	10.3	5.3

Commentary

- ◆ The Judges II and LTC international equity funds returned -20.7% for the quarter and slightly trailed their custom benchmark, the FTSE Developed World ex-US & Tobacco Index. The funds continue to track closely to the benchmark over the one-year and longer periods.

⁶⁴ Effective October 1, 2006, the benchmark is FTSE Developed World ex-U.S. & Tobacco Index. Prior of that the benchmark was the MSCI EAFE Index (Net).

Total Fixed Income

Fixed Income Performance Periods Ended September 30, 2008

	Market Value	Qtr	One Year	Three Year	Five Year	Ten Year
Judges II Fixed Income <i>Custom Benchmark</i> ⁶⁵	\$105.5 mil	-5.5%	-2.1%	2.0%	2.5%	4.7%
		-1.6	2.7	3.5	3.3	4.9
LTC Fixed Income <i>Custom Benchmark</i> ⁶⁶	\$630.5	-5.5	-2.1	2.0	2.7	4.8
		-1.6	2.7	3.5	3.2	4.9
LTC High Yield <i>Barclays Long Liability High Yield</i>	\$216.9	-8.2	-11.0	1.5	-.-	-.-
		-8.0	-9.7	1.3	-.-	-.-
LTC TIPS <i>Barclays Long Liability TIPS</i>	\$156.7	-3.5	6.1	4.0	-.-	-.-
		-3.5	6.2	4.0	-.-	-.-

Commentary

- ◆ Both the Judges II and LTC fixed income portfolios returned -5.5% for the third quarter and underperformed their custom benchmark, the Barclays Long Liability Index. The portfolios have also lagged the benchmark for all other measured periods shown above.
- ◆ LTC's high yield portfolio produced a return of -8.2% for the quarter and slightly trailed the Barclays Long Liability High Yield Index's return of -8.0%. The high yield portfolio also underperformed its benchmark over the one-year mark but has outperformed over the three-year period.
- ◆ The LTC's TIPS portfolio, managed against the Barclays Long Liability TIPS Index, generated a return of -3.5% and matched its benchmark for the quarter. The TIPS portfolio's one-year and three-year performance has also mirrored the Barclays Long Liability TIPS Index.

⁶⁵ The current benchmark is the Barclays Long Liability Index. Prior of July 2005 the benchmark was the Barclays Aggregate Bond Index.

⁶⁶ The current benchmark is the Barclays Long Liability Index. Barclays Long Liability ex TIPS ex High Yield was the benchmark between June 2007 and July 2005. Prior of that the benchmark was the Barclays Aggregate Bond Index.

Total Real Estate

Real Estate Performance Periods Ended September 30, 2008

	Market Value	Qtr	One Year	Three Year	Five Year
Judges II REIT	\$31.0 mil	3.1%	-11.6%	5.5%	-.-
LTC REIT	113.8 mil	3.0	-13.3	4.8	-.-
<i>Custom Benchmark ⁶⁷</i>		4.5	-12.9	5.1	-.-
<i>DJ Wilshire RESI</i>		4.5	-12.9	5.1	13.6
<i>TUCS Real Estate Median</i>		-0.7	1.8	11.5	14.2

Commentary

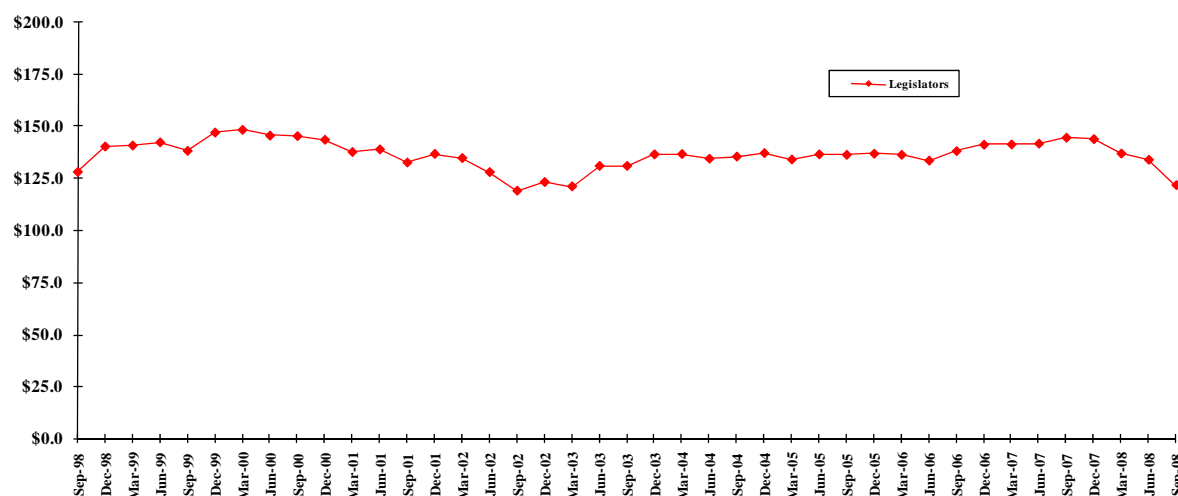
- ◆ Judges II and LTC's REIT portfolios produced a third quarter return of 3.1% and 3.0%, respectively, and underperformed their custom benchmark, the Dow Jones Wilshire Real Estate Securities Index. The Judges II's REIT portfolio has outperformed relative to the custom benchmark over the one- and three-year periods, while the LTC's REIT portfolio lagged for the same periods.

⁶⁷ Current benchmark is the DJ Wilshire RESI Index. Historically, it has been the DJ Wilshire REIT Index.

Legislators' Information

California Legislators' Retirement System

Growth in Assets



Total Fund Performance Results

Total Fund Performance Periods Ended September 30, 2008

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
LRS	\$121.7 mil	-7.9%	-10.7%	2.0%	4.6%	5.1%
<i>Weighted Policy Benchmark</i> ⁶⁸		-5.8	-8.3	2.6	5.3	5.6
<i>TUCS Public Fund Median</i> ⁶⁹		-8.2	-14.4	2.7	6.4	5.6

Asset Allocation

Asset Class	Actual	Policy	Difference
US Equity	30.4%	30.0%	+0.4%
International Equity	9.6	10.0	-0.4
US Bonds	49.9	50.0	-0.1
TIPS	10.1	10.0	+0.1
Cash Equivalents	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
	100.0	100.0	0.0

⁶⁸ The weighted policy benchmark returns are calculated based on asset class index returns weighted by asset class policy targets.

⁶⁹ The Trust Universe Comparison Service (TUCS) is a universe of over 1,000 client portfolio returns subdivided by client type and asset class.

Commentary

- ◆ The California Legislators' Retirement System ('LRS, the System') generated a return of -7.9% for the third quarter of 2008 and underperformed its weighted policy benchmark's return of -5.8%. Large underperformance by the System's core fixed income portfolio during the quarter was the primary performance detractor, as the fixed income portfolio trailed its respective benchmark by 394 bps. Over the one-year and longer periods, the System has also underperformed its policy benchmark. The LRS' portfolio outperformed relative to the TUCS Public Fund Median for the quarter and the one-year periods, but has lagged over the three-, five- and ten-year periods.
- ◆ As of September 30, the System was overweight in U.S. equity and TIPS while underweight in international equity and fixed income.

LRS Internal U.S. Equity Assets

LRS Internal U.S. Equity Performance Periods Ended September 30, 2008

	Market Value	Qtr	One Year	Three Year	Five Year	Ten Year
LRS U.S. Equity	\$37.0 mil	-8.5%	-22.3%	0.1%	5.0%	2.9%
<i>Custom S&P 500 Index</i> ⁷⁰		-8.5	-22.3	0.0	4.9	2.9
<i>TUCS Equity Median</i>		-8.8	-21.0	0.5	6.7	5.5

Commentary

- ◆ The System's U.S. equity portfolio generated a return of -8.5% during the third quarter and matched its custom benchmark, the S&P 500 ex-Tobacco Index. Over the one-year and longer periods, the portfolio continues to added value and has tracked very closely to its custom benchmark.

International Equity Performance

Total International Equity Performance Periods Ended September 30, 2008

	Market Value	Qtr	One Year	Three Year	Five Year	Ten Year
LRS International	\$11.7 mil	-20.7%	-29.6%	2.1%	10.5%	5.6%
<i>Custom Benchmark</i> ⁷¹		-20.6	-29.5	2.1	10.3	5.3

⁷⁰ A custom tobacco-free S&P 500 is used as the benchmark for the U.S. equity segment of LRS starting with the February 2001 performance. Prior of that the benchmark was the S&P 500 Index.

⁷¹ Effective October 1, 2006, the benchmark is the FTSE Developed World ex-U.S. & Tobacco Index. Prior of that the benchmark was the MSCI EAFE Index (Net).

Commentary

- ◆ The System's international equity portfolio returned -20.7% for the quarter and performed slightly worse than its custom benchmark, the FTSE Developed World ex-U.S. & Tobacco Index. The international equity portfolio trailed its benchmark over the one-year period, but has added value over longer-term periods.

Total Fixed Income

Total Fixed Income Performance Periods Ended September 30, 2008

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
LRS Fixed Income	\$60.7 mil	-5.5%	-2.1%	2.3%	2.5%	4.7%
<i>Custom Benchmark ⁷²</i>		-1.6	2.7	3.6	4.1	5.5
LRS TIPS	\$12.3 mil	-3.5	6.1	4.0	-.-	-.-
<i>Custom Benchmark ⁷³</i>		-3.5	6.2	4.0	-.-	-.-

Commentary

- ◆ The LRS fixed income portfolio generated a return of -5.5% for the quarter and underperformed relative to its custom benchmark, the Barclays Long Liability Index. Over the long term, the portfolio has also underperformed its benchmark for all measured periods shown above.
- ◆ The System's TIPS portfolio produced a return of -3.5% for the quarter and matched its custom benchmark, the Barclays U.S. TIPS Index. The portfolio continues to track closely to its benchmark over the one- and three-year periods.

⁷² The current benchmark is the Barclays Long Liability Index. Lehman Long Liability ex TIPS was used as the benchmark between June 2005 and May 2007. Prior of that the benchmark was Citigroup LPF.

⁷³ The current benchmark is the Barclays U.S. TIPS Index. Prior of July 2007 the benchmark was the Barclays Long Liability TIPS Index.

Annuitants Healthcare Plan

Annuitants HealthCare

Asset Allocation

Asset Class	Actual	Policy	Difference
US Equity	35.3%	35.0%	0.3%
International Equity	28.2	29.0	-0.8
US Bonds	20.6	20.0	0.6
High Yield	5.0	6.0	-1.0
REITS	10.2	10.0	0.2
Cash Equivalents	<u>0.6</u>	<u>0.0</u>	<u>0.6</u>
	100.0	100.0	0.0

Total Fund Performance Results

Total Fund Performance Periods Ended September 30, 2008

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Total Fund	\$648.0 mil	-9.9%	-16.6%	-.%	-.%	-.%
<i>Benchmark</i>		-9.5	-18.0	-.%	-.%	-.%
Domestic Equity	229.0 mil	-8.5	-22.3	-.%	-.%	-.%
<i>Benchmark</i>		-8.5	-22.3	-.%	-.%	-.%
International Equity	182.8 mil	-20.7%	-29.6	-.%	-.%	-.%
<i>Benchmark</i>		-20.6	-29.5	-.%	-.%	-.%
REITS	66.4 mil	3.8%	-12.3	-.%	-.%	-.%
<i>Benchmark</i>		4.5	-12.9	-.%	-.%	-.%
Fixed Income	133.2 mil	-5.5%	-2.1	-.%	-.%	-.%
<i>Benchmark</i>		-1.6	2.7	-.%	-.%	-.%
Healthcare Bond Fund	0.4 mil	-2.0	1.1	-.%	-.%	-.%
<i>Barclays Aggregate</i>		-0.5	3.7	-.%	-.%	-.%
High Yield	32.7 mil	-8.2	-10.9%	-.%	-.%	-.%
<i>Benchmark</i>		-7.9	-9.6%	-.%	-.%	-.%
Cash	4.0 mil	0.6	3.5	-.%	-.%	-.%

Supplemental Income Plans

Supplemental Income Plan Performance

Total Fund Performance Results- Supplemental Contribution Plan

Periods Ended September 30, 2008

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>
Total Fund	\$16.7mil	-10.0%	-18.3%	1.0%	5.4%
<i>Weighted Policy</i>		-9.1	-17.3	1.6	5.7
SCP Equity Fund	\$8.6 mil	-8.5	-22.3	0.1	5.0
<i>PERS S&P 500</i>		-8.5	-22.3	0.0	4.9
SCP International Fund	\$3.1 mil	-20.7	-29.6	2.1	10.3
<i>Custom Benchmark</i>		-20.6	-29.5	2.1	10.3
SCP Fixed Fund	\$4.7 mil	-5.5	2.1	3.3	4.6
<i>Custom Benchmark</i>		-1.6	2.7	3.5	3.2
SCP Short Term Fund	\$0.0 mil	0.6	3.5	3.9	2.9
International index	\$177 thous	-14.5	--	--	--
<i>FTSE Developed World Ex-Us</i>		-6.1	--	--	--
Small/Mid Equity Index	172 thous	-6.7	--	--	--
<i>Russell 2500</i>		-6.7	--	--	--
SSgA Age-Based 2010	7.5 thous	-5.5	--	--	--
<i>Custom SSgA Index</i>		-5.6	--	--	--
SSgA Age-Based 2020	8.4 thous	-7.7	--	--	--
<i>Custom SSgA Index</i>		-8.0	--	--	--
SSgA International Alpha Select	5.5 thous	-21.9	--	--	--
<i>MSCI EAFE Index</i>		-20.6	--	--	--
TIPS Securities Fund	621 thous	-3.6	--	--	--
<i>Barclays TIPS Index</i>		-3.5	--	--	--
Total Return Bond Fund	9.7 thous	-2.1	--	--	--
<i>Barclays Government 1-3 Years</i>		-0.5	--	--	--
Turner Large Cap Growth	36.9 thous	-18.0	--	--	--
<i>Russell 1000 Growth</i>		-12.3	--	--	--

Aggressive Asset Allocation	12.1 thous	-8.0	-.-	-.-	-.-
<i>SSgA Growth Index</i>		-8.9	-.-	-.-	-.-
S&P 500 Equity Index Fund	606.2 thous	-8.3	-.-	-.-	-.-
<i>S&P 500 Index</i>		-8.4	-.-	-.-	-.-
SSgA AgeBased Income	60.9 thous	-4.1	-.-	-.-	-.-
<i>SSgA Income Custom Index</i>		-4.1	-.-	-.-	-.-
Moderate Asset Allocation Fund	40.2 thous	-5.7	-.-	-.-	-.-
<i>SSgA Balanced Growth index</i>		-6.7	-.-	-.-	-.-
Conservative Asset Allocation	12.9 thous	-3.5	-.-	-.-	-.-
<i>SSgA Income and Growth index</i>		-4.4	-.-	-.-	-.-
Alliance Bernstein Large Cap	45.8 thous	-14.5	-.-	-.-	-.-
<i>Russell 1000 Value</i>		-6.1	-.-	-.-	-.-
Stable Fixed Income	553.9 thous	0.9	-.-	-.-	-.-
<i>LB Government 1-3 Year index</i>		1.4	-.-	-.-	-.-

CalPERS Deferred Compensation Plan
Historical Performance
Periods Ended September 30, 2008

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
U.S. Equity Option	\$114.0 mil	-8.3%	-21.9%	-0.1%	4.6%	2.7%
Custom S&P 500 Index		-8.5	-22.3	0.0	4.9	3.0

CalPERS 457 Program Net Funds
Periods Ended September 30, 2008

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
SSgA Stable Fixed Income	\$154.4 mil	0.8	3.5	4.0	3.9	4.5
Barclays Bros Government 1-3		1.4	5.9	5.1	3.5	4.6
S&P 500 Equity Fund	107.8 mil	-8.4	-22.2	0.0	4.9	2.7
S&P 500 Index		-8.4	-22.0	0.2	5.2	3.1
Conservative Asset Allocation	23.1 mil	-3.6	-7.4	2.3	4.3	4.0
Benchmark		-4.4	-7.5	2.8	4.9	5.0
Moderate Asset Allocation	84.0 mil	-5.7	-12.7	1.9	5.2	3.8
Benchmark		-6.7	-13.0	2.1	5.5	4.8
Aggressive Asset Allocation	32.8 mil	-8.0	-18.1	1.0	5.6	3.3
Benchmark		-8.9	-18.3	1.3	6.1	4.5
Alliance Bernstein Large Cap	1.3 mil	-14.5	-31.8	--	--	--
Russell 1000 Value		-6.1	-23.6			
Turner Large Cap Growth	32.6 mil	-18.0	-28.0	--	--	--
Russell 1000 Growth		-12.3	-20.9			
Small/Mid Equity Index	79.8 mil	-6.7	-18.2	--	--	--
Russell 2500 Index		-6.7	-18.0			
Total Return Bond Fund	33.3 mil	-2.2	0.6	--	--	--
Barclays Aggregate		-0.5	3.7			
TIPs Securities	16.3 mil	-3.6	5.5	--	--	--
BarclaysUS Tips		-3.5	6.2			
SSgA Age-Based Income	3.1 mil	-4.1	-5.8	--	--	--
Custom Index		-4.1	-5.2			
SSgA Age Based 2010	5.8 mil	-5.4	-9.9	--	--	--
Custom Index		-5.6	-9.6			
SSgA Age Based 2020	6.3 mil	-7.7	-15.2	--	--	--
Custom Index		-8.0	-15.0			
SSgA Age Based 2030	2.6 mil	-9.2	-18.6	--	--	--
Custom Index		-9.6	-18.5			

CalPERS
Performance Analysis
September 30, 2008

SSgA Age Based 2040	1.6 mil	-10.0	-20.0	-.-	-.-	-.-
<i>Custom Index</i>		-10.4	-19.9	-.-	-.-	-.-
International Index	5.8 mil	-20.8	-29.9	-.-	-.-	-.-
<i>Custom Index</i>		-20.5	-29.1	-.-	-.-	-.-
SSga Interational Alpha Select	29.1 mil	-22.0	-30.2	-.-	-.-	-.-
<i>Custom Index</i>		-20.6	-30.5	-.-	-.-	-.-

CalPERS Peace Officers & Fire Fighters Defined Contribution Plan Account
Periods Ended September 30, 2008

	Market Value	Qtr	One Year	Three Year	Five Year	Ten Year
SSgA Balanced Growth Fund	\$337.5 mil	-5.9%	-13.2%	1.5%	4.9%	-.-
<i>Index</i>		-6.7	-13.0	2.1	5.5	

APPENDIX for Supplemental

CalPERS 457 Program Custom Funds for the City of Anaheim
Periods Ended September 30, 2008

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Stable Fixed Income Fund	10.5 mil	0.9%	3.8%	4.3%	4.2%	4.8%
<i>Barclays Government 1-3</i>		1.4	5.9	5.1	3.5	4.6
Conservative Asset Allocation	0.1 mil	-3.5	-.	-.	-.	-.
<i>SSgA Income and Growth index</i>		-4.4	-.	-.	-.	-.
Moderate Asset Allocation	0.2 mil	-5.7	-.	-.	-.	-.
<i>SSgA Balanced Growth Index</i>		-6.7	-.	-.	-.	-.
Aggressive Asset Allocation	0.0 mil	-7.9	-.	-.	-.	-.
<i>SSgA Growth Index</i>		-8.9	-.	-.	-.	-.
CalPERS S&P 500 Index Fund	5.5 mil	-8.3	-21.9	0.3	5.2	3.0
<i>S&P 500</i>		-8.4	-22.0	0.2	5.2	3.1
Small/Mid Equity Index	2.3 mil	-6.7	-.	-.	-.	-.
<i>Russell 2500</i>		-6.7	-.	-.	-.	-.
Total Return Bond Fund	1.3 mil	-2.2	-.	-.	-.	-.
<i>Barclays Bond</i>		-0.5	-.	-.	-.	-.
TIPS Securities	0.4mil	-3.6	-.	-.	-.	-.
<i>Barclays US TIPS</i>		-3.5	-.	-.	-.	-.
SSgA Age Based Income Fund	2.1 mil	-4.1	-5.5	2.3		
<i>Benchmark</i>		-4.1	-5.2	2.9		
SSgA Age Based 2010	2.4 mil	-5.4	-9.7	1.4	-.	-.
<i>Benchmark</i>		-5.6	-9.6	2.0	-.	-.
SSgA Age Based 2020	1.7 mil	-7.6	-15.0	1.2	-.	-.
<i>Benchmark</i>		-8.0	-15.0	1.9	-.	-.
SSgA Age Based 2030	0.7 mil	-9.2	-18.4	1.1	-.	-.
<i>Benchmark</i>		-9.6	18.5	1.5	-.	-.
SSgA Age Based 2040	0.2 mil	-10.0	-19.8	1.7	-.	-.
<i>Benchmark</i>		-10.4	-19.9	1.8	-.	-.
International Index	0.5 mil	-20.8	-.	-.	-.	-.
<i>FTSE Developed World Ex-US</i>		-20.5	-.	-.	-.	-.
SSgA International Alpha Select	1.4mil	-21.9	-.	-.	-.	-.
<i>Benchmark</i>		-20.6				

	<u>Market Value</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Alliance Bernstein Large Cap	0.4 mil	-14.6	-.-	-.-	-.-	-.-
<i>Russell 1000 Value</i>		-6.1	-.-	-.-	-.-	-.-
Turner Large Cap Growth	2.1 mil	-18.1	-.-	-.-	-.-	-.-
<i>Russell 1000 Growth</i>		-12.3	-.-	-.-	-.-	-.-
Mid Cap Equity	0.3 mil	-13.7	-19.3	0.2	-.-	-.-
<i>Russell Mid Cap Index</i>		-12.9	-22.4	0.1	-.-	-.-
Mid Cap Select	0.3 mil	-16.1	-25.5	0.5	-.-	-.-
<i>Russell Mid Cap Index</i>		-12.9	22.4	0.1	-.-	-.-
Small Cap Growth Fund	3.0 mil	-11.2	-17.0	1.0	-.-	-.-
<i>Russell 2000 Growth</i>		-7.0	-17.1	1.5	-.-	-.-
Passive Bond Market Index	0.5 mil	-0.4	3.9	4.2	-.-	-.-
<i>Leman Brothers Index</i>		-0.5	3.7	4.2	-.-	-.-

APPENDIX for PERF

External Manager Performance Review Domestic Equity - Core

	<u>Market Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>Incept.</u>	<u>Date</u>
Active External Mainstream Mgrs	2.4	-14.8%	-27.7%	-1.9%	4.3%	2.3%	6/98
Domestic External Core							
Piedmont Large Cap Core (MDP II)	0.2	-8.7%	-22.7%	-.%	-.%	-11.2%	3/07
<i>Custom Benchmark</i>		-8.5%	-22.2%	-.%	-.%	-10.6%	
<i>Value Added</i>		-0.2%	-0.5%	-.%	-.%	-0.6%	
<i>Performance Objective</i>		-8.3%	-21.2%	-.%	-.%	-9.6%	
<i>Value Added</i>		-0.4%	-1.5%	-.%	-.%	-1.6%	
Smith Asset Large Cap (MDP)	0.2	-10.6%	-22.9%	1.2%	-.%	5.5%	12/03
<i>Custom Benchmark</i>		-8.5%	-22.2%	0.2%	-.%	2.9%	
<i>Value Added</i>		-2.1%	-0.7%	1.0%	-.%	2.6%	
<i>Performance Objective</i>		-8.0%	-20.2%	2.2%	-.%	4.9%	
<i>Value Added</i>		-2.6%	-2.7%	-1.0%	-.%	0.6%	

Domestic Equity – Long/Short

	<u>Market Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>Incept.</u>	<u>Date</u>
Long/Short	2.2	-10.3%	-22.6%	-.%	-.%	-18.9%	6/07
Long/Short Funds							
Analytic Investors	0.6	-12.3%	-22.2%	-.%	-.%	-19.4%	6/07
<i>Russell 1000 Ex-Tobacco, Ex-REIT</i>		-9.5%	-22.3%	-.%	-.%	-17.0%	
<i>Value Added</i>		-2.8%	0.1%	-.%	-.%	-2.4%	
<i>Performance Objective</i>		-8.7%	-19.3%	-.%	-.%	-14.0%	
<i>Value Added</i>		-3.6%	-2.9%	-.%	-.%	-5.4%	
First Quadrant	0.6	-11.8%	-.%	-.%	-.%	-9.6%	3/08
<i>Benchmark</i>		-9.5%	-.%	-.%	-.%	-11.2%	
<i>Value Added</i>		-2.3%	-.%	-.%	-.%	1.6%	
<i>Performance Objective</i>		-9.0%	-.%	-.%	-.%	-10.2%	
<i>Value Added</i>		-2.8%	-.%	-.%	-.%	0.6%	
JP Morgan	0.5	-8.1%	-.%	-.%	-.%	-9.5%	3/08
<i>Benchmark</i>		-8.5%	-.%	-.%	-.%	-11.0%	
<i>Value Added</i>		0.4%	-.%	-.%	-.%	1.5%	
<i>Performance Objective</i>		-7.8%	-.%	-.%	-.%	-9.5%	
<i>Value Added</i>		-0.3%	-.%	-.%	-.%	0.0%	
Quantitative Long/Short	0.6	-8.6%	-21.5%	-.%	-.%	-16.8%	6/07
<i>Russell 1000 Ex-Tobacco, Ex-REIT</i>		-9.5%	-22.3%	-.%	-.%	-17.0%	
<i>Value Added</i>		0.9%	0.8%	-.%	-.%	0.2%	
<i>Performance Objective</i>		-8.9%	-19.8%	-.%	-.%	-14.5%	
<i>Value Added</i>		0.3%	-1.7%	-.%	-.%	-2.3%	

External Manager Performance Review (continued)

Domestic Equity – Growth

Active External Mgrs	Market Value	Qtr	1 Year	3 Year	5 Year	Incept.	Date
	2.4	-14.8%	-27.7%	-1.9%	4.3%	2.3%	6/98
Domestic External Growth							
Marvin & Palmer Large Cap Growth	0.6	-20.1%	-25.2%	-.%	-.%	-6.2%	12/06
<i>Custom Benchmark</i>		-12.6%	-21.2%	-.%	-.%	-6.5%	
<i>Value Added</i>		-7.5%	-4.0%	-.%	-.%	0.3%	
<i>Performance Objective</i>		-12.2%	-19.7%	-.%	-.%	-5.0%	
<i>Value Added</i>		-7.9%	-5.5%	-.%	-.%	-1.2%	
Rigel - Large Growth (MDP)	0.2	-18.3%	-23.1%	-1.3%	-.%	3.0%	12/03
<i>Custom Benchmark</i>		-12.6%	-21.2%	0.0%	-.%	1.8%	
<i>Value Added</i>		-5.7%	-1.9%	-1.3%	-.%	1.2%	
<i>Performance Objective</i>		-12.1%	-19.2%	2.0%	-.%	3.8%	
<i>Value Added</i>		-6.2%	-3.9%	-3.3%	-.%	-0.8%	
Redwood Large Growth (MDP II)	0.2	-15.6%	-.%	-.%	-.%	-11.1%	3/08
<i>Custom Benchmark</i>		-12.6%	-.%	-.%	-.%	-11.4%	
<i>Value Added</i>		-3.0%	-.%	-.%	-.%	0.3%	
Stux (MDP)	0.2	-11.9%	-21.9%	0.4%	-.%	3.0%	3/04
<i>Custom Benchmark</i>		-9.5%	-22.3%	0.2%	-.%	3.0%	
<i>Value Added</i>		-2.4%	0.4%	0.2%	-.%	0.0%	
<i>Performance Objective</i>		-9.1%	-20.8%	1.7%	-.%	4.5%	
<i>Value Added</i>		-2.8%	-1.1%	-1.3%	-.%	-1.5%	
Turner Large Cap Growth	0.7	-16.8%	-26.8%	-.%	-.%	-7.7%	12/06
<i>Custom Benchmark</i>		-12.6%	-21.2%	-.%	-.%	-6.5%	
<i>Value Added</i>		-4.2%	-5.6%	-.%	-.%	-1.2%	
<i>Performance Objective</i>		-12.2%	-19.7%	-.%	-.%	-5.0%	
<i>Value Added</i>		-4.6%	-7.1%	-.%	-.%	-2.7%	

External Manager Performance Review (continued)

Domestic Equity – Value

Active External Mainstream Mgrs	Market Value 2.4	Qtr -14.8%	1 Year -27.7%	3 Year -1.9%	5 Year 4.3%	Incept. 2.3%	Date 6/98
Domestic External Value							
Alliance Bernstein	0.4	-14.7%	-33.8%	-5.1%	3.8%	5.4%	9/04
<i>Custom Benchmark</i>		-6.2%	-23.8%	-0.4%	7.1%	4.3%	
<i>Value Added</i>		-8.5%	-10.0%	-4.7%	-3.3%	1.1%	
<i>Performance Objective</i>		-5.9%	-22.5%	0.9%	8.4%	5.6%	
<i>Value Added</i>		-8.8%	-11.3%	-6.0%	-4.6%	-0.2%	
Denali Advisors (MDP)	0.1	-10.5%	-25.4%	-1.0%	7.7%	3.0%	6/01
<i>Custom Benchmark</i>		-6.2%	-23.8%	0.8%	7.5%	4.0%	
<i>Value Added</i>		-4.3%	-1.6%	-1.8%	0.2%	-1.0%	
<i>Performance Objective</i>		-5.7%	-21.8%	2.8%	9.5%	6.0%	
<i>Value Added</i>		-4.8%	-3.6%	-3.8%	-1.8%	-3.0%	
Denali Mid Value	0.1	-11.8%	-24.5%	-.%	-.%	-24.5%	9/07
<i>Custom Benchmark</i>		-7.7%	-20.4%	-.%	-.%	-20.4%	
<i>Value Added</i>		-4.1%	-4.1%	-.%	-.%	-4.1%	
Pzena	0.3	-4.3%	-32.2%	-5.7%	3.9%	8.6%	9/00
<i>Custom Benchmark</i>		-6.2%	-23.8%	-0.5%	7.7%	6.8%	
<i>Value Added</i>		1.9%	-8.4%	-5.2%	-3.8%	1.8%	
<i>Performance Objective</i>		-5.9%	-22.5%	0.8%	9.0%	8.1%	
<i>Value Added</i>		1.6%	-9.7%	-6.5%	-5.1%	0.5%	
Shenandoah (MDP)	0.1	-12.4%	-19.4%	0.6%	8.5%	6.4%	3/01
<i>Custom Benchmark</i>		-13.0%	-22.3%	-0.3%	7.3%	6.7%	
<i>Value Added</i>		0.6%	2.9%	0.9%	1.2%	-0.3%	
<i>Performance Objective</i>		-12.5%	-20.3%	1.7%	9.3%	8.7%	
<i>Value Added</i>		0.1%	0.9%	-1.1%	-0.8%	-2.3%	
Smith Asset Small Cap (MDP)	0.1	-13.0%	-25.5%	-2.1%	-.%	4.4%	12/03
<i>Custom Benchmark</i>		-6.7%	-18.0%	1.2%	-.%	5.0%	
<i>Value Added</i>		-6.3%	-7.5%	-3.3%	-.%	-0.6%	
<i>Performance Objective</i>		-6.1%	-15.5%	3.7%	-.%	7.5%	
<i>Value Added</i>		-6.9%	-10.0%	-5.8%	-.%	-3.1%	

External Manager Performance Review (continued)

Domestic Equity – Enhanced

	Market Value	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>Incept.</u>	<u>Date</u>
Total Domestic Ext. Enhanced	1.5	-8.3%	-22.5%	-0.8%	-.-%	2.6%	9/04
Golden Capital	0.4	-7.5%	-20.2%	-.-%	-.-%	-9.3%	3/07
<i>Custom Benchmark</i>		-8.5%	-22.2%	-.-%	-.-%	-10.6%	
<i>Value Added</i>		1.0%	2.0%	-.-%	-.-%	1.3%	
<i>Performance Objective</i>		-8.3%	-21.2%	-.-%	-.-%	-9.6%	
<i>Value Added</i>		0.8%	1.0%	-.-%	-.-%	0.3%	
INTECH	0.4	-8.4%	-20.8%	0.0%	-.-%	3.8%	9/04
<i>Custom Benchmark</i>		-9.5%	-22.3%	0.0%	-.-%	3.2%	
<i>Value Added</i>		1.1%	1.5%	0.0%	-.-%	0.6%	
<i>Performance Objective</i>		-9.2%	-21.3%	1.0%	-.-%	4.2%	
<i>Value Added</i>		0.8%	0.5%	-1.0%	-.-%	-0.4%	
T. Rowe Price	0.6	-8.9%	-21.3%	-.-%	-.-%	-1.6%	3/06
<i>Custom Benchmark</i>		-8.5%	-22.2%	-.-%	-.-%	-2.4%	
<i>Value Added</i>		-0.4%	0.9%	-.-%	-.-%	0.8%	
<i>Performance Objective</i>		-8.2%	-21.0%	-.-%	-.-%	-1.2%	
<i>Value Added</i>		-0.7%	-0.3%	-.-%	-.-%	-0.4%	

External Manager Performance Review (continued)

Domestic Equity – MDP ⁷⁴

	<u>Market Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>Incept.</u>	<u>Date</u>
Total Domestic MDP	0.9	-13.0%	-22.7%	-0.5%	5.7%	1.6%	12/00
Total Domestic MDP II	0.5	-11.6%	-22.7%	-.%	-.%	-11.2%	3/07
Total Domestic MDP Ventures	0.0	0.0%	11.2%	117.8%	100.0%	56.0%	3/01
Denali Advisors (MDP)	0.1	-10.5%	-25.4%	-1.0%	7.7%	3.0%	6/01
<i>Custom Benchmark</i>		-6.2%	-23.8%	0.8%	7.5%	4.0%	
<i>Value Added</i>		-4.3%	-1.6%	-1.8%	0.2%	-1.0%	
<i>Performance Objective</i>		-5.7%	-21.8%	2.8%	9.5%	6.0%	
<i>Value Added</i>		-4.8%	-3.6%	-3.8%	-1.8%	-3.0%	
Piedmont (MDP II)	0.2	-8.7%	-22.7%	-.%	-.%	-11.2%	3/07
<i>Custom Benchmark</i>		-8.5%	-22.3%	-.%	-.%	-10.6%	
<i>Value Added</i>		-0.2%	-0.4%	-.%	-.%	-0.6%	
<i>Performance Objective</i>		-8.3%	-21.3%	-.%	-.%	-9.6%	
<i>Value Added</i>		-0.4%	-1.4%	-.%	-.%	-1.6%	
Quotient Small Core (MDP II)	0.0	-7.5%	-.%	-.%	-.%	-9.0%	3/08
<i>Custom Benchmark</i>		-1.1%	-.%	-.%	-.%	-0.5%	
<i>Value Added</i>		-6.4%	-.%	-.%	-.%	-8.5%	
Quotient Large Core (MDP II)	0.1	-10.6%	-.%	-.%	-.%	-12.6%	3/08
<i>Custom Benchmark</i>		-9.5%	-.%	-.%	-.%	-11.2%	
<i>Value Added</i>		-1.1%	-.%	-.%	-.%	-1.4%	

⁷⁴The MDP managers are listed by style elsewhere in this appendix.

External Manager Performance Review (continued)

Domestic Equity – MDP ⁷⁴

	Market Value	Qtr	1 Year	3 Year	5 Year	Incept.	Date
Total Domestic MDP	0.9	-13.0%	-22.7%	-0.5%	5.7%	1.6%	12/00
Total Domestic MDP II	0.5	-11.6%	-22.7%	-.%	-.%	-11.2%	3/07
Total Domestic MDP Ventures	0.0	0.0%	11.2%	117.8%	100.0%	56.0%	3/01
Redwood Large Growth (MDP II)	0.2	-15.6%	-.%	-.%	-.%	-11.1%	3/08
<i>Custom Benchmark</i>		-12.6%	-.%	-.%	-.%	-11.4%	
<i>Value Added</i>		-3.0%	-.%	-.%	-.%	0.3%	
Rigel - Large Growth (MDP)	0.2	-18.3%	-23.1%	-1.3%	-.%	3.0%	12/03
<i>Custom Benchmark</i>		-12.6%	-21.2%	0.0%	-.%	1.8%	
<i>Value Added</i>		-5.7%	-1.9%	-1.3%	-.%	1.2%	
<i>Performance Objective</i>		-12.1%	-19.2%	2.0%	-.%	3.8%	
<i>Value Added</i>		-6.2%	-3.9%	-3.3%	-.%	-0.8%	
Shenandoah (MDP)	0.1	-12.4%	-19.4%	0.6%	8.5%	6.4%	3/01
<i>Custom Benchmark</i>		-13.0%	-22.3%	-0.3%	7.3%	6.7%	
<i>Value Added</i>		0.6%	2.9%	0.9%	1.2%	-0.3%	
<i>Performance Objective</i>		-12.5%	-20.3%	1.7%	9.3%	8.7%	
<i>Value Added</i>		0.1%	0.9%	-1.1%	-0.8%	-2.3%	
Smith Asset Large Cap (MDP)	0.2	-10.6%	-22.9%	1.2%	-.%	5.5%	12/03
<i>Custom Benchmark</i>		-8.5%	-22.3%	0.2%	-.%	2.9%	
<i>Value Added</i>		-2.1%	-0.6%	1.0%	-.%	2.6%	
<i>Performance Objective</i>		-8.0%	-20.3%	2.2%	-.%	4.9%	
<i>Value Added</i>		-2.6%	-2.6%	-1.0%	-.%	0.6%	
Smith Asset Small Cap (MDP)	0.1	-13.0%	-25.5%	-2.1%	-.%	4.4%	12/03
<i>Custom Benchmark</i>		-6.7%	-18.0%	1.2%	-.%	5.0%	
<i>Value Added</i>		-6.3%	-7.5%	-3.3%	-.%	-0.6%	
<i>Performance Objective</i>		-6.1%	-15.5%	3.7%	-.%	7.5%	
<i>Value Added</i>		-6.9%	-10.0%	-5.8%	-.%	-3.1%	
Stux (MDP)	0.2	-11.9%	-21.9%	0.4%	-.%	3.0%	3/04
<i>Custom Benchmark</i>		-9.5%	-22.3%	0.2%	-.%	3.0%	
<i>Value Added</i>		-2.4%	0.4%	0.2%	-.%	0.0%	
<i>Performance Objective</i>		-9.1%	-20.8%	1.7%	-.%	4.5%	
<i>Value Added</i>		-2.8%	-1.1%	-1.3%	-.%	-1.5%	

⁷⁴ The MDP managers are listed by style elsewhere in this appendix.

External Manager Performance Review (continued)

Domestic Equity – FOF

	Market Value	Qtr	1 Year	3 Year	5 Year	Incept.	Date
FIS Fund of Funds	0.3	-11.7%	-.%	-.%	-.%	-10.2%	3/08
Ah Lisanti Small Cap Growth	0.0	-14.0%	-.%	-.%	-.%	-7.8%	3/08
Custom Benchmark		-7.0%	-.%	-.%	-.%	-2.8%	
Value Added		-7.0%	-.%	-.%	-.%	-5.0%	
Atlanta Life Large Growth	0.0	-.%	-.%	-.%	-.%	-.%	6/08
Custom Benchmark		-.%	-.%	-.%	-.%	-.%	
Value Added		-.%	-.%	-.%	-.%	-.%	
Atlanta Large Value	0.0	-12.5%	-.%	-.%	-.%	-10.6%	3/08
Custom Benchmark		-6.2%	-.%	-.%	-.%	-11.2%	
Value Added		-6.3%	-.%	-.%	-.%	0.6%	
Ativo International	0.0	-.%	-.%	-.%	-.%	-.%	6/08
Custom Benchmark		-.%	-.%	-.%	-.%	-.%	
Value Added		-.%	-.%	-.%	-.%	-.%	
Bedlam International	0.0	-.%	-.%	-.%	-.%	-.%	6/08
Custom Benchmark		-.%	-.%	-.%	-.%	-.%	
Value Added		-.%	-.%	-.%	-.%	-.%	
Lombardia Small Value	0.0	-.%	-.%	-.%	-.%	-.%	
Custom Benchmark		-.%	-.%	-.%	-.%	-.%	
Value Added		-.%	-.%	-.%	-.%	-.%	
Moody Aldrich All Cap Value	0.0	-16.4%	-.%	-.%	-.%	-17.7%	3/08
Custom Benchmark		-5.3%	-.%	-.%	-.%	-10.3%	
Value Added		-11.1%	-.%	-.%	-.%	-7.4%	
Mastrapasqua Large Growth	0.0	-12.2%	-.%	-.%	-.%	-7.8%	3/08
Custom Benchmark		-12.6%	-.%	-.%	-.%	-11.4%	
Value Added		0.4%	-.%	-.%	-.%	3.6%	
Oakbrook Mid Cap Core	0.0	-15.0%	-.%	-.%	-.%	-11.4%	3/08
Custom Benchmark		-13.0%	-.%	-.%	-.%	-10.7%	
Value Added		-2.0%	-.%	-.%	-.%	-0.7%	
Oakbrook Large Value	0.0	-.%	-.%	-.%	-.%	-.%	6/08
Custom Benchmark		-.%	-.%	-.%	-.%	-.%	
Value Added		-.%	-.%	-.%	-.%	-.%	
Paradigm Alpha Max Large Value	0.0	-7.9%	-.%	-.%	-.%	-11.3%	3/08
Custom Benchmark		-6.2%	-.%	-.%	-.%	-11.2%	
Value Added		-1.7%	-.%	-.%	-.%	-0.1%	
Rushmore ADR	0.0	-.%	-.%	-.%	-.%	-.%	6/08
Custom Benchmark		-.%	-.%	-.%	-.%	-.%	
Value Added		-.%	-.%	-.%	-.%	-.%	
Thomas White International	0.0	-.%	-.%	-.%	-.%	-.%	6/08
Custom Benchmark		-.%	-.%	-.%	-.%	-.%	
Value Added		-.%	-.%	-.%	-.%	-.%	
DSM Large Growth	0.0	-11.6%	-.%	-.%	-.%	-6.7%	3/08
Custom Benchmark		-12.6%	-.%	-.%	-.%	-11.4%	
Value Added		1.0%	-.%	-.%	-.%	4.7%	

External Manager Performance Review (continued)

Domestic Equity – FOF

	Market Value	Qtr	1 Year	3 Year	5 Year	Incept.	Date
Leading Edge Fund of Funds	0.3	-12.3%	-.%	-.%	-.%	-7.4%	3/08
Logan Large Growth	0.0	-18.9%	-.%	-.%	-.%	-17.3%	3/08
<i>Custom Benchmark</i>		-12.6%	-.%	-.%	-.%	-11.4%	
<i>Value Added</i>		-6.3%	-.%	-.%	-.%	-5.9%	
Markston Large Growth	0.0	-4.8%	-.%	-.%	-.%	-3.1%	3/08
<i>Custom Benchmark</i>		-8.5%	-.%	-.%	-.%	-11.0%	
<i>Value Added</i>		3.7%	-.%	-.%	-.%	7.9%	
Mindshare Small Growth	0.0	-12.8%	-.%	-.%	-.%	-1.9%	3/08
<i>Custom Benchmark</i>		-7.0%	-.%	-.%	-.%	-2.8%	
<i>Value Added</i>		-5.8%	-.%	-.%	-.%	0.9%	
NMF Small Value	0.0	-.%	-.%	-.%	-.%	-.%	6/08
<i>Custom Benchmark</i>		-.%	-.%	-.%	-.%	-.%	
<i>Value Added</i>		-.%	-.%	-.%	-.%	-.%	
Redwood Large Growth-LEIA	0.0	-15.7%	-.%	-.%	-.%	-11.8%	3/08
<i>Custom Benchmark</i>		-12.6%	-.%	-.%	-.%	-11.4%	
<i>Value Added</i>		-3.1%	-.%	-.%	-.%	-0.4%	
TIS Small Cap	0.0	-.%	-.%	-.%	-.%	-.%	6/08
<i>Custom Benchmark</i>		-.%	-.%	-.%	-.%	-.%	
<i>Value Added</i>		-.%	-.%	-.%	-.%	-.%	
Cupps Small Growth	0.0	-12.3%	-.%	-.%	-.%	-4.4%	3/08
<i>Custom Benchmark</i>		-7.0%	-.%	-.%	-.%	-2.8%	
<i>Value Added</i>		-5.3%	-.%	-.%	-.%	-1.6%	
Phocas Small Value	0.0	3.6%	-.%	-.%	-.%	1.4%	3/08
<i>Custom Benchmark</i>		4.9%	-.%	-.%	-.%	1.3%	
<i>Value Added</i>		-1.3%	-.%	-.%	-.%	0.1%	
Credo Mid Growth	0.0	-19.8%	-.%	-.%	-.%	-10.7%	3/08
<i>Custom Benchmark</i>		-17.8%	-.%	-.%	-.%	-14.0%	
<i>Value Added</i>		-2.0%	-.%	-.%	-.%	3.3%	

External Manager Performance Review (continued)

Domestic Equity – Corporate Governance

	Market Value	Qtr	1 Year	3 Year	5 Year	Incept	Date
Total Domestic Corporate Governance	2.1	-5.0%	-20.2%	-2.3%	6.9%	14.5%	12/98
Blum Strategic Partners III	0.1	-5.3%	-28.7%	-5.1%	-.%	-5.1%	9/05
<i>Custom Benchmark</i>		1.9%	8.0%	8.0%	-.%	8.0%	
<i>Value Added</i>		-7.2%	-36.7%	-.%	-.%	-13.1%	
Blum Strategic Partners II	0.0	-25.6%	-40.5%	-.%	-.%	-35.5%	6/07
<i>Custom Benchmark</i>		1.9%	8.0%	-.%	-.%	8.0%	
<i>Value Added</i>		-27.5%	-48.5%	-.%	-.%	-43.5%	
Blum Strategic Partners IV	0.2	-8.5%	-.%	-.%	-.%	-39.7%	12/07
<i>Custom Benchmark</i>		1.9%	-.%	-.%	-.%	6.0%	
<i>Value Added</i>		-6.6%	-.%	-.%	-.%	-33.7%	
Breeden Partners	0.5	2.3%	-1.1%	-.%	-.%	5.1%	6/06
<i>Custom Benchmark</i>		-8.4%	-22.0%	-.%	-.%	-1.8%	
<i>Value Added</i>		10.7%	20.9%	-.%	-.%	6.9%	
New Mountain Capital	0.2	-15.8%	-16.3%	-.%	-.%	-3.2%	12/05
<i>Custom Benchmark</i>		-8.4%	-22.0%	-.%	-.%	-0.5%	
<i>Value Added</i>		-7.4%	5.7%	-.%	-.%	-2.7%	
Internal New Mountain Capital	0.1	-25.3%	-10.5%	-.%	-.%	4.7%	12/06
<i>Custom Benchmark</i>		-8.4%	-22.0%	-.%	-.%	-8.8%	
<i>Value Added</i>		-16.9%	11.5%	-.%	-.%	13.5%	
Relational Investors	0.7	-7.3%	-29.3%	-6.9%	3.5%	12.7%	12/98
<i>Custom Benchmark</i>		-8.4%	-22.0%	0.2%	5.2%	1.1%	
<i>Value Added</i>		1.1%	-7.3%	-7.1%	-1.7%	11.6%	
Relational Midcap	0.0	-.%	-.%	-.%	-.%	-.%	9/08
<i>Custom Benchmark</i>		-.%	-.%	-.%	-.%	-.%	
<i>Value Added</i>		-.%	-.%	-.%	-.%	-.%	
Internal Relational	0.2	8.5%	-8.3%	5.8%	16.8%	17.7%	12/02
<i>Custom Benchmark</i>		-8.4%	-22.0%	0.1%	5.5%	7.0%	
<i>Value Added</i>		16.9%	13.7%	5.7%	11.3%	10.7%	
Shamrock Partners	0.1	4.4%	-19.0%	-0.9%	-.%	0.5%	3/05
<i>Custom Benchmark</i>		-1.1%	-14.5%	1.8%	-.%	4.2%	
<i>Value Added</i>		5.5%	-4.5%	-2.7%	-.%	-3.7%	

RM ARS–Fund of Funds

	Market Value	Qtr	1 Year	3 Year	5 Year
Total RM ARS Program	7.1	-8.7%	-9.9%	3.6%	6.4%
47 Degrees North Capital Fund of Emerging Funds	0.1	-7.9%	-6.7%	-.%	-.%
Ermitage European Fund of Funds	0.1	-1.6%	1.7%	-.%	-.%
Europanel European Fund of Funds	0.2	-3.9%	0.7%	-.%	-.%
KBC Asian Fund of Funds	0.2	-3.9%	-7.5%	-.%	-.%
PAAMCO Fund of Emerging Funds	0.1	-11.0%	-.%	-.%	-.%
Rock Creek fund of Emerging Funds	0.1	-9.9%	-.%	-.%	-.%
SPARX Asian Fund of Funds	0.1	-3.7%	-6.5%	-.%	-.%
UBS European Fund of Funds	0.2	-5.0%	-10.5%	-.%	-.%
Vision Asian Fund of Funds	0.2	-3.3%	-1.8%	-.%	-.%

External Manager Performance Review (continued)
Domestic Equity – Environmental

	Market Value	Qtr	1 Year	3 Year	5 Year	Incept.	Date
Total Environmental	0.3	-11.9%	-21.7%	-0.9%	-.%	0.6%	3/05
AXA Rosenberg	0.1	-12.2%	-22.2%	-.%	-.%	-2.7%	3/06
<i>Custom Benchmark</i>		-9.5%	-22.3%	-.%	-.%	-2.6%	
<i>Value Added</i>		-2.7%	0.1%	-.%	-.%	-0.1%	
<i>Performance Objective</i>		-9.0%	-20.3%	-.%	-.%	-0.6%	
<i>Value Added</i>		-3.2%	-1.9%	-.%	-.%	-2.1%	
New Amsterdam Partners	0.1	-12.8%	-19.6%	-.%	-.%	-3.5%	3/06
<i>Custom Benchmark</i>		-9.5%	-22.3%	-.%	-.%	-2.6%	
<i>Value Added</i>		-3.3%	2.7%	-.%	-.%	-0.9%	
<i>Performance Objective</i>		-9.1%	-20.8%	-.%	-.%	-1.1%	
<i>Value Added</i>		-3.7%	1.2%	-.%	-.%	-2.4%	
SSgA Environmental	0.1	-10.5%	-23.0%	-.%	-.%	-3.4%	6/06
<i>Custom Benchmark</i>		-8.5%	-22.2%	-.%	-.%	-2.0%	
<i>Value Added</i>		-2.0%	-0.8%	-.%	-.%	-1.4%	

External Manager Performance Review (continued)
International Equity – Core ACWI

Int'l Active Mainstream	Market Value 5.7	Qtr -24.1%	1 Year -32.4%	3 Year 1.9%	5 Year 10.6%	Incept. 6.1%	Date 6/89
Int'l External Core							
Acadian Asset Management	0.7	-25.9%	-36.3%	-.%	-.%	-0.8%	12/05
<i>Custom Benchmark</i>		-21.7%	-29.7%	-.%	-.%	1.7%	
<i>Value Added</i>		-4.2%	-6.6%	-.%	-.%	-2.5%	
<i>Performance Objective</i>		-21.2%	-27.7%	-.%	-.%	3.7%	
<i>Value Added</i>		-4.7%	-8.6%	-.%	-.%	-4.5%	
Arrowstreet (Mainstream)	0.8	-22.3%	-28.3%	4.1%	14.0%	16.7%	3/03
<i>Custom Benchmark</i>		-21.7%	-29.7%	3.0%	11.6%	15.9%	
<i>Value Added</i>		-0.6%	1.4%	1.1%	2.4%	0.8%	
<i>Performance Objective</i>		-21.2%	-27.7%	5.0%	13.6%	17.9%	
<i>Value Added</i>		-1.1%	-0.6%	-0.9%	0.4%	-1.2%	
Arrowstreet (MDP)	0.0	-26.7%	-32.3%	2.0%	12.8%	4.3%	6/00
<i>Custom Benchmark</i>		-21.7%	-29.7%	3.0%	11.6%	2.7%	
<i>Value Added</i>		-5.0%	-2.6%	-1.0%	1.2%	1.6%	
<i>Performance Objective</i>		-21.2%	-27.7%	5.0%	13.6%	4.7%	
<i>Value Added</i>		-5.5%	-4.6%	-3.0%	-0.8%	-0.4%	
AQR Capital Management	0.4	-24.2%	-32.1%	-.%	-.%	-1.7%	12/05
<i>Custom Benchmark</i>		-20.6%	-29.4%	-.%	-.%	1.1%	
<i>Value Added</i>		-3.6%	-2.7%	-.%	-.%	-2.8%	
<i>Performance Objective</i>		-20.1%	-27.4%	-.%	-.%	3.1%	
<i>Value Added</i>		-4.1%	-4.7%	-.%	-.%	-4.8%	
Fidelity	0.6	-21.8%	-.%	-.%	-.%	-21.5%	3/08
<i>Custom Benchmark</i>		-20.6%	-.%	-.%	-.%	-21.7%	
<i>Value Added</i>		-1.2%	-.%	-.%	-.%	0.2%	
QMA International	0.4	-24.8%	-35.4%	-.%	-.%	-5.1%	3/06
<i>Custom Benchmark</i>		-20.6%	-29.4%	-.%	-.%	-2.5%	
<i>Value Added</i>		-4.2%	-6.0%	-.%	-.%	-2.6%	
<i>Performance Objective</i>		-20.3%	-28.4%	-.%	-.%	-1.5%	
<i>Value Added</i>		-4.5%	-7.0%	-.%	-.%	-3.6%	

External Manager Performance Review (continued)

International Equity – Core Europe

	<u>Market Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>Incept.</u>	<u>Date</u>
Int'l Active Mainstream	5.7	-24.1%	-32.4%	1.9%	10.6%	6.1%	6/89
Int'l External Core Europe							
AXA Rosenberg	0.6	-27.1%	-35.1%	1.0%	11.2%	6.1%	3/01
Custom Benchmark		-20.5%	-30.2%	3.1%	11.5%	6.0%	
Value Added		-6.6%	-4.9%	-2.1%	-0.3%	0.1%	
Performance Objective		-20.0%	-28.2%	5.1%	13.5%	8.0%	
Value Added		-7.1%	-6.9%	-4.1%	-2.3%	-1.9%	

International Equity – Environmental

	<u>Market Value</u>	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>Incept.</u>	<u>Date</u>
Int'l Environmental	0.2	-19.4%	-28.3%	-.-%	-.-%	-1.8%	3/06
Int'l Environmental							
Brandywine	0.1	-16.2%	-27.3%	-.-%	-.-%	-3.2%	6/06
Custom Benchmark		-20.6%	-29.4%	-.-%	-.-%	-3.1%	
Value Added		4.4%	2.1%	-.-%	-.-%	-0.1%	
Performance Objective		-20.1%	-27.4%	-.-%	-.-%	-1.1%	
Value Added		3.9%	0.1%	-.-%	-.-%	-2.1%	
SSgA Environmental	0.1	-21.4%	-29.0%	-.-%	-.-%	-0.8%	3/06
Custom Benchmark		-20.6%	-29.4%	-.-%	-.-%	-2.5%	
Value Added		-0.8%	0.4%	-.-%	-.-%	1.7%	
Performance Objective		-20.1%	-27.4%	-.-%	-.-%	-0.5%	
Value Added		-1.3%	-1.6%	-.-%	-.-%	-0.3%	

External Manager Performance Review (continued)
International Equity – Growth & Value

Int'l Active Mainstream	Market Value	Qtr	1 Year	3 Year	5 Year	Incept.	Date
	5.7	-24.1%	-32.4%	1.9%	10.6%	6.1%	6/89
Int'l External Growth							
Alliance Large Cap Growth	0.5	-28.8%	-33.5%	-0.2%	-.%	-0.2%	9/05
Custom Benchmark		-21.7%	-29.7%	3.0%	-.%	3.0%	
Value Added		-7.1%	-3.8%	-3.2%	-.%	-3.2%	
Performance Objective		-21.2%	-27.7%	5.0%	-.%	5.0%	
Value Added		-7.6%	-5.8%	-5.2%	-.%	-5.2%	
Baillie Gifford	0.8	-22.7%	-27.1%	6.5%	15.0%	8.7%	6/01
Custom Benchmark		-21.7%	-29.7%	3.0%	11.6%	7.0%	
Value Added		-1.0%	2.6%	3.5%	3.4%	1.7%	
Performance Objective		-21.2%	-27.7%	5.0%	13.6%	9.0%	
Value Added		-1.5%	0.6%	1.5%	1.4%	-0.3%	
New Star Institutional Managers	0.3	-24.7%	-33.3%	0.0%	-.%	0.0%	9/05
Custom Benchmark		-21.7%	-29.7%	3.0%	-.%	3.0%	
Value Added		-3.0%	-3.6%	-3.0%	-.%	-3.0%	
Performance Objective		-21.2%	-27.6%	5.0%	-.%	5.0%	
Value Added		-3.5%	-5.7%	-5.0%	-.%	-5.0%	

External Manager Performance Review (continued)
International Equity – Growth & Value cont'd

Int'l Active Mainstream	Market Value	Qtr	1 Year	3 Year	5 Year	Incept.	Date
	5.7	-24.1%	-32.4%	1.9%	10.6%	6.1%	6/89
Int'l External Value ACWI							
Alliance Strategic Value	0.5	-24.5%	-38.0%	-0.2%	-.%	-0.2%	9/05
Custom Benchmark		-21.7%	-29.7%	3.0%	-.%	3.0%	
Value Added		-2.8%	-8.3%	-3.2%	-.%	-3.2%	
Performance Objective		-21.2%	-27.7%	5.0%	-.%	5.0%	
Value Added		-3.3%	-10.3%	-5.2%	-.%	-5.2%	
Grantham, Mayo, Van Otterloo	0.6	-21.7%	-30.8%	1.6%	10.7%	8.6%	6/01
Custom Benchmark		-21.7%	-29.7%	3.0%	11.6%	7.0%	
Value Added		0.0%	-1.1%	-1.4%	-0.9%	1.6%	
Performance Objective		-21.1%	-27.3%	5.5%	14.0%	9.5%	
Value Added		-0.6%	-3.5%	-3.9%	-3.3%	-0.9%	
Pyrford (MDP)	0.1	-18.6%	-24.8%	1.7%	9.2%	6.7%	12/01
Custom Benchmark		-20.6%	-29.4%	2.2%	10.8%	8.2%	
Value Added		2.0%	4.6%	-0.5%	-1.6%	-1.5%	
Performance Objective		-20.1%	-27.4%	4.2%	12.8%	10.2%	
Value Added		1.5%	2.6%	-2.5%	-3.6%	-3.5%	
Int'l External Value Pacific							
Nomura	0.4	-20.9%	-32.1%	0.6%	8.8%	3.8%	9/89
Custom Benchmark		-20.8%	-31.2%	0.3%	8.5%	0.1%	
Value Added		-0.1%	-0.9%	0.3%	0.3%	3.7%	
Performance Objective		-20.3%	-29.2%	2.3%	10.5%	2.1%	
Value Added		-0.6%	-2.9%	-1.7%	-1.7%	1.7%	

External Manager Performance Review (continued)
International Equity – MDP⁷⁵

	Market Value	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>Incept.</u>	<u>Date</u>
Total Int'l MDP	0.1	-18.8%	-25.0%	3.4%	10.2%	1.7%	6/00
Total Int'l MDP Ventures	0.0	0.0%	5.2%	35.4%	39.3%	28.2%	6/00
Arrowstreet (MDP)	0.0	-26.7%	-32.3%	2.0%	12.8%	4.3%	6/00
<i>Custom Benchmark</i>		-21.7%	-29.7%	3.0%	11.6%	2.7%	
<i>Value Added</i>		-5.0%	-2.6%	-1.0%	1.2%	1.6%	
<i>Performance Objective</i>		-21.2%	-27.7%	5.0%	13.6%	4.7%	
<i>Value Added</i>		-5.5%	-4.6%	-3.0%	-0.8%	-0.4%	
Pyrford (MDP)	0.1	-18.6%	-24.8%	1.7%	9.2%	6.7%	12/01
<i>Custom Benchmark</i>		-20.6%	-29.4%	2.2%	10.8%	8.2%	
<i>Value Added</i>		2.0%	4.6%	-0.5%	-1.6%	-1.5%	
<i>Performance Objective</i>		-20.1%	-27.4%	4.2%	12.8%	10.2%	
<i>Value Added</i>		1.5%	2.6%	-2.5%	-3.6%	-3.5%	

⁷⁵ The MDP managers are also listed by style elsewhere in this appendix.

International Equity – Emerging Markets

	Market	Qtr	1 Year	3 Year	5 Year	Incept.	Date
Int'l Emerging Markets	Value	-24.6%	-29.9%	7.2%	20.3%	23.8%	9/02
AllianceBernstein	0.9	-30.0%	-35.8%	3.8%	19.7%	24.3%	9/02
Custom Benchmark		-26.4%	-31.8%	7.9%	18.4%	22.1%	
Value Added		-3.6%	-4.0%	-4.1%	1.3%	2.2%	
Performance Objective		-25.8%	-29.3%	10.4%	20.9%	24.6%	
Value Added		-4.2%	-6.5%	-6.6%	-1.2%	-0.3%	
Batterymarch	0.9	-28.2%	-32.4%	-.%	-.%	-19.6%	6/07
Custom Benchmark		-26.4%	-31.8%	-.%	-.%	-20.2%	
Value Added		-1.8%	-0.6%	-.%	-.%	0.6%	
Performance Objective		-25.9%	-29.8%	-.%	-.%	-18.2%	
Value Added		-26.4%	-31.8%	-.%	-.%	-20.2%	
DFA	0.5	-19.6%	-26.5%	10.2%	21.3%	25.3%	9/02
Custom Benchmark		-26.4%	-31.8%	7.9%	18.4%	22.1%	
Value Added		6.8%	5.3%	2.3%	2.9%	3.2%	
Performance Objective		-25.9%	-29.8%	9.9%	20.4%	24.1%	
Value Added		6.3%	3.3%	0.3%	0.9%	1.2%	
Genesis	1.1	-19.7%	-24.2%	8.2%	20.1%	22.0%	9/02
Custom Benchmark		-26.4%	-31.8%	7.9%	18.4%	22.1%	
Value Added		6.7%	7.6%	0.3%	1.7%	-0.1%	
Performance Objective		-25.8%	-29.3%	10.4%	20.9%	24.6%	
Value Added		6.1%	5.1%	-2.2%	-0.8%	-2.6%	
Lazard	0.5	-19.5%	-23.1%	-.%	-.%	-23.1%	9/07
Custom Benchmark		-26.4%	-31.8%	-.%	-.%	-31.8%	
Value Added		6.9%	8.7%	-.%	-.%	8.7%	
Performance Objective		-25.9%	-29.8%	-.%	-.%	-29.8%	
Value Added		6.4%	6.7%	-.%	-.%	6.7%	
Pictet	0.4	-29.8%	-35.1%	-.%	-.%	-22.0%	6/07
Custom Benchmark		-26.4%	-31.8%	-.%	-.%	-20.2%	
Value Added		-3.4%	-3.3%	-.%	-.%	-1.8%	
Performance Objective		-25.9%	-29.8%	-.%	-.%	-18.2%	
Value Added		-3.9%	-5.3%	-.%	-.%	-3.8%	

External Manager Performance Review (continued)

International Equity – Corporate Governance

	Market Value	<u>Qtr</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>Date</u>
Total Int'l Corporate Governance	2.2	-21.3%	-35.3%	-3.3%	6.0%	12/98
Governance for Owners	0.2	-24.6%	-43.9%	-.-%	-.-%	12/06
<i>Custom Benchmark</i>		-21.4%	-30.3%	-.-%	-.-%	
<i>Value Added</i>		-3.2%	-13.6%	-.-%	-.-%	
Internal Governance for Owners	0.2	-23.7%	-47.9%	-.-%	-.-%	9/07
<i>Custom Benchmark</i>		-21.4%	-30.3%	-.-%	-.-%	
<i>Value Added</i>		-2.3%	-17.6%	-.-%	-.-%	
Hermes UK Focus	0.3	-18.6%	-40.0%	-5.1%	4.1%	12/99
<i>Custom Benchmark</i>		-21.5%	-31.8%	0.3%	9.2%	
<i>Value Added</i>		2.9%	-8.2%	-5.4%	-5.1%	
Hermes Europe Focus	0.2	-30.6%	-41.4%	0.7%	11.1%	9/03
<i>Custom Benchmark</i>		-20.5%	-29.8%	5.0%	13.1%	
<i>Value Added</i>		-10.1%	-11.6%	-4.3%	-2.0%	
Hermes U.K. Small Cap	0.0	-19.5%	-40.8%	-.-%	-.-%	9/07
<i>Custom Benchmark</i>		-23.9%	-46.3%	-.-%	-.-%	
<i>Value Added</i>		4.4%	5.5%	-.-%	-.-%	
Knight Vinke	0.2	-15.9%	-17.7%	13.6%	-.-%	12/03
<i>Custom Benchmark</i>		-21.4%	-30.3%	3.5%	-.-%	
<i>Value Added</i>		5.5%	12.6%	10.1%	-.-%	
Knight Vinke Internal Partners	0.1	-26.8%	-24.8%	-.-%	-.-%	3/06
<i>Custom Benchmark</i>		-21.4%	-30.3%	-.-%	-.-%	
<i>Value Added</i>		-5.4%	5.5%	-.-%	-.-%	
Lazard Korea Corp Gov Fund	0.1	-18.5%	-.-%	-.-%	-.-%	3/08
<i>Custom Benchmark</i>		-24.1%	-.-%	-.-%	-.-%	
<i>Value Added</i>		5.6%	-.-%	-.-%	-.-%	
Taiyo Fund	0.5	-24.8%	-32.0%	-2.8%	8.5%	9/03
<i>Custom Benchmark</i>		-17.6%	-32.7%	-8.3%	1.6%	
<i>Value Added</i>		-7.2%	0.7%	5.5%	6.9%	
Taiyo Cypress	0.2	-18.1%	-.-%	-.-%	-.-%	3/08
<i>Custom Benchmark</i>		-17.6%	-.-%	-.-%	-.-%	
<i>Value Added</i>		-0.5%	-.-%	-.-%	-.-%	
Taiyo Pearl Fund	0.2	-6.0%	-.-%	-.-%	-.-%	12/07
<i>Custom Benchmark</i>		0.0%	-.-%	-.-%	-.-%	
<i>Value Added</i>		-6.0%	-.-%	-.-%	-.-%	

External Manager Performance Review (continued)

Fixed Income – High Yield

	Market Value	Qtr	1 Year	3 Year	5 Year	10 Year
Total Fixed Income	50.7	-5.2%	-1.7%	2.8%	4.0%	5.3%
<i>Fixed Income Policy Index</i>		-1.8%	2.9%	3.7%	4.2%	5.4%
External High Yield*	1.0	-6.0%	-14.3%	2.1%	6.5%	-.-%
Highland Capital Distressed Fund	0.0	-21.5%	-26.3%	2.2%	13.3%	-.-%
<i>Custom Benchmark</i>		-7.9%	-9.6%	1.3%	4.1%	-.-%
<i>Value Added</i>		-13.6%	-16.7%	0.9%	9.2%	-.-%
Highland CLN	0.6	-4.2%	-.-%	-.-%	-.-%	-.-%
<i>Custom Benchmark</i>		-7.9%	-.-%	-.-%	-.-%	-.-%
<i>Value Added</i>		3.7%	-.-%	-.-%	-.-%	-.-%
Nomura	0.3	-7.4%	-11.2%	1.3%	4.6%	-.-%
<i>Custom Benchmark</i>		-7.9%	-9.6%	1.3%	4.5%	-.-%
<i>Value Added</i>		0.5%	-1.6%	0.0%	0.1%	-.-%
PIMCO	0.3	-9.0%	-11.1%	1.2%	4.4%	-.-%
<i>Custom Benchmark</i>		-7.9%	-9.6%	1.3%	4.5%	-.-%
<i>Value Added</i>		-1.1%	-1.5%	-0.1%	-0.1%	-.-%

Fixed Income – MDP

	Market Value	Qtr	1 Year	3 Year	5 Year	10 Year
DF Manager Development	0.2	-3.3%	0.8%	3.4%	3.5%	-.-%
LM Capital	0.2	-3.3%	0.8%	3.4%	3.4%	-.-%
<i>Custom Benchmark</i>		-0.1%	4.5%	4.5%	4.0%	-.-%
<i>Value Added</i>		-3.2%	-3.7%	-1.1%	-0.6%	-.-%
<i>Performance Objective</i>		0.1%	5.5%	5.5%	5.0%	-.-%
<i>Value Added</i>		-3.4%	-4.7%	-2.1%	-1.6%	-.-%

*Portfolio was unitized and is included in multiple plans.

External Manager Performance Review (continued)
Fixed Income – External International

	Market Value	Qtr	1 Year	3 Year	5 Year	10 Year
Total Fixed Income	50.7	-5.2%	-1.7%	2.8%	4.0%	5.3%
<i>Fixed Income Policy Index</i>		-1.8%	2.9%	3.7%	4.2%	5.4%
International Fixed Income	4.7	-5.7%	3.0%	4.5%	5.2%	4.5%
Alliance Bernstein	1.2	-8.4%	-0.5%	-.-%	-.-%	-.-%
<i>Custom Benchmark</i>		-4.2%	4.5%	-.-%	-.-%	-.-%
<i>Value Added</i>		-4.2%	-5.0%	-.-%	-.-%	-.-%
<i>Performance Objective</i>		-3.8%	6.0%	-.-%	-.-%	-.-%
<i>Value Added</i>		-4.6%	-6.5%	-.-%	-.-%	-.-%
Baring	0.3	-4.6%	4.8%	4.8%	5.0%	4.1%
<i>Custom Benchmark</i>		-4.2%	4.5%	5.4%	5.5%	5.2%
<i>Value Added</i>		-0.4%	0.3%	-0.6%	-0.5%	-1.1%
<i>Performance Objective</i>		-3.9%	6.0%	6.9%	7.0%	6.7%
<i>Value Added</i>		-0.7%	-1.2%	-2.1%	-2.0%	-2.6%
Mondrian	0.9	-1.1%	9.8%	-.-%	-.-%	-.-%
<i>Custom Benchmark</i>		-4.2%	4.5%	-.-%	-.-%	-.-%
<i>Value Added</i>		3.1%	5.3%	-.-%	-.-%	-.-%
<i>Performance Objective</i>		-3.8%	6.0%	-.-%	-.-%	-.-%
<i>Value Added</i>		2.7%	3.8%	-.-%	-.-%	-.-%
PIMCO	1.2	-5.9%	1.7%	-.-%	-.-%	-.-%
<i>Custom Benchmark</i>		-4.2%	4.5%	-.-%	-.-%	-.-%
<i>Value Added</i>		-1.7%	-2.8%	-.-%	-.-%	-.-%
<i>Performance Objective</i>		-3.8%	6.0%	-.-%	-.-%	-.-%
<i>Value Added</i>		-2.1%	-4.3%	-.-%	-.-%	-.-%
Rogge	1.1	-6.7%	4.3%	5.1%	5.6%	-.-%
<i>Custom Benchmark</i>		-4.2%	4.5%	5.4%	5.5%	-.-%
<i>Value Added</i>		-2.5%	-0.2%	-0.3%	0.1%	-.-%
<i>Performance Objective</i>		-3.8%	6.0%	6.9%	7.0%	
<i>Value Added</i>		-2.9%	-1.7%	-1.8%	-1.4%	

External Manager Performance Review (continued)
Fixed Income - Special Investments

	Market Value	Qtr	1 Year	3 Year	5 Year	10 Year
Special Investments	1.0	1.0%	5.6%	5.4%	4.9%	5.3%
Equitable CCMF	0.0	1.5%	7.4%	9.0%	8.5%	7.8%
MHLP-BRS	0.7	0.5%	5.0%	5.3%	4.7%	-.-%
U.L.L.I. Co.	0.0	15.7%	22.1%	16.9%	12.6%	10.7%

External Manager Performance Review (continued)

Real Estate

Real Estate REITS	Market Value 1.6	Qtr -13.4%	1 Year -34.2%	3 Year 0.2%	5 Year 10.5%	Incept. 5.5%	Date 3/02
Adelante Capital Domestic Press <i>Custom Benchmark</i> <i>Value Added</i>	0.1	-6.9% 4.5% -11.4%	-22.1% -12.9% -9.2%	-.-% -.-% -.-%	-.-% -.-% -.-%	-22.1% -10.0% -12.1%	12/06
Citigroup Intl PREES <i>Custom Benchmark</i> <i>Value Added</i>	0.1	-20.4% -19.7% -0.7%	-40.8% -40.6% -0.2%	-.-% -.-% -.-%	-.-% -.-% -.-%	-31.2% -22.1% -9.1%	12/06
Morgan Stanley Intl PREES <i>Custom Benchmark</i> <i>Value Added</i>	0.2	-18.9% -19.7% 0.8%	-39.9% -40.6% 0.7%	-.-% -.-% -.-%	-.-% -.-% -.-%	-29.1% -22.1% -7.0%	12/06
European Intl PREES <i>Custom Benchmark</i> <i>Value Added</i>	0.1	-22.1% -19.7% -2.4%	-45.4% -40.6% -4.8%	-.-% -.-% -.-%	-.-% -.-% -.-%	-35.8% -22.1% -13.7%	12/06
Intl Asset Allocation REIT <i>Custom Benchmark</i> <i>Value Added</i>	0.4	-19.7% -19.7% 0.0%	-40.6% -40.6% 0.0%	-.-% -.-% -.-%	-.-% -.-% -.-%	-4.9% -1.9% -3.0%	3/06
RREEF Intl PREES* <i>Custom Benchmark</i> <i>Value Added</i>	0.1	-20.7% -19.7% -1.0%	-42.6% -40.6% -2.0%	-.-% -.-% -.-%	-.-% -.-% -.-%	-30.6% -22.1% -8.5%	12/06
PRESIMA, Inc. <i>Custom Benchmark</i> <i>Value Added</i>	0.1	-20.0% -19.7% -0.3%	-45.0% -40.6% -4.4%	-.-% -.-% -.-%	-.-% -.-% -.-%	-33.6% -22.1% -11.5%	12/06
PREES Extended Market* <i>Custom Benchmark</i> <i>Value Added</i>	0.5	4.4% 4.5% -0.1%	-12.8% -12.8% 0.0%	5.5% 5.0% 0.5%	14.0% 13.7% 0.3%	13.3% 14.7% -1.4%	3/02

*The fund's assets were moved internally.

Manager Monitoring

Wilshire will rigorously monitor each of CalPERS' externally-managed investment managers and provide quarterly updates and issues in the Executive Summary.

Domestic Equity

Alliance Bernstein

- The manager has underperformed its benchmark for all time periods with the exception of the since inception period. The manager had had unrewarded stock selection. Wilshire will continue to monitor the manger.

Pzena

- The manager has underperformed its benchmark for almost all time periods with the exception of the current quarter and the since inception period. The manager had had unrewarded sector selection. Wilshire will continue to monitor the manger.

Shamrock

- The manager has underperformed its benchmark for all time periods longer than the current quarter. This is a very concentrated portfolio which Wilshire monitors each quarter. Shamrock recently hired a new manager and Wilshire is closely monitoring the manager.

Int'l Equity

Grantham Mayo

- The manager has lagged its benchmark for all periods with the exception of the since inception period. The manager has had poor sector and country selection. Wilshire will continue to monitor the manager.

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

Relational Investors

Third Quarter 2008

Investment Type: U.S. Corporate Governance Fund

Inception Date: March 1996

Capital Commitment: \$1 billion

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 11.5 million	\$3,270.5 million
Distributed Capital:	\$ 29.9 million	\$3,099.3 million

Market Value (9/30/08): \$ 650.1 million

Investment Strategy:

Relational Investors employs a corporate governance strategy aimed at unlocking intrinsic value in underperforming, publicly traded, U.S. companies. When compared to the broader market and industry peers, these companies typically exhibit inferior performance in one or more of the following areas: operations, financial structure, long-term strategy, corporate governance policies or management. Each investment represents a significant percentage of a particular company's outstanding shares, generally 3-10%. Relational Investors then seeks to maximize investment value by initiating contact with the company's management, board of directors and other shareholders to facilitate change.

Summary Analysis:

Number of Investments: 12

1. Relational reorganized the research department around sector specialization to provide a more disciplined structure, more efficient use of personnel, and ensure more thorough coverage of their investment universe. As part of this reorganization, John A. Sullivan was appointed to the Investment Committee alongside Ralph V. Whitworth and David H. Batchelder. Additionally, Kirt Karros has been promoted to Managing Director to lead the research effort for Technology/Telecom/Media/Energy sectors with Todd Leigh. Glenn Welling is the head of research for Consumer/Healthcare/Utilities sectors, and Jay Winship heads sector research for Financials/Industrials/Materials. Also as a result from the reorganization, Fir M. Geenen, Senior Managing Director, left the firm after a year; his responsibilities have been assumed by other senior members of the portfolio management team.
2. On July 3, 2008, Relational launched a new offering that focuses on the middle market companies (market capitalizations of \$1 - \$8 billion). Relational has been successful in this space in the past but targeted larger companies as assets have grown. CalPERS made a \$300 million investment in this fund, an additional \$300 million from another client is in documentation. Additional reporting/analysis on the Mid-Cap fund began this quarter.

Philosophy/Process: No material changes.

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

Relational Investors

Third Quarter 2008

Performance Analysis:

Relational's performance led during the quarter as the portfolio outperformed the S&P 500 Index. Once Relational exits Sovereign Bancorp and Sprint/Nextel, their efforts and energy could be better focused on five new undisclosed engagements. All initial meetings with these five new engagements have been warmly received. Aside from the forthcoming exit from Sovereign, the exit from Capital One (and Prudential from the previous quarter) has decreased Relational's exposure to financials significantly. As a result of Relational's efforts, Baxter has achieved their turnaround goals allowing Relational to reap the gains, while National Semiconductor and Unum are all prime targets for consolidation/acquisition. Wilshire will continue to monitor and provide updates on the fund.

Calendar Year Performance (%)									
As of 9/30/2008									
	YTD	2007	2006	2005	2004	2003	2002	2001	2000
Relational	-18.36	-10.01	9.29	9.89	16.49	40.77	0.55	7.89	73.70
Custom S&P 500	-19.29	5.54	15.81	4.89	10.87	28.69	-22.12	-11.88	-9.12
Excess Return	<i>0.93</i>	<i>-15.55</i>	<i>-6.52</i>	<i>5.00</i>	<i>5.62</i>	<i>12.08</i>	<i>22.67</i>	<i>19.77</i>	<i>82.82</i>

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

Relational Investors – Mid Cap

Third Quarter 2008

Investment Type: U.S. Corporate Governance Fund

Inception Date: July 2008

Capital Commitment: \$300 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 56.2 million	\$ 56.2 million
Distributed Capital:	\$ 0.0 million	\$ 0.0 million

Market Value (9/30/08): \$ 56.5 million

Investment Strategy:

Relational's process is aimed at improving the performance of portfolio companies in a variety of areas, including operations, financial structure, and overall strategy. Typically, portfolio companies will be fairly mature companies with strong cash flows from underperforming core businesses. Generally, Relational is not looking for "turn around" opportunities. Relational looks to proactively engage each portfolio company to improve performance in the belief that improved corporate performance will result in a higher valuation for the company. RMMF will maintain a concentrated portfolio of 8-12 stocks with no single company will represent more than 25% of the Fund. There are no sector weight targets or limits.

Summary Analysis:

Number of Investments: 5

1. Relational reorganized the research department around sector specialization to provide a more disciplined structure, more efficient use of personnel, and ensure more thorough coverage of their investment universe. As part of this reorganization, John A. Sullivan was appointed to the Investment Committee alongside Ralph V. Whitworth and David H. Batchelder. Additionally, Kirt Karros has been promoted to Managing Director to lead the research effort for Technology/Telecom/Media/Energy sectors with Todd Leigh. Glenn Welling is the head of research for Consumer/Healthcare/Utilities sectors, and Jay Winship heads sector research for Financials/Industrials/Materials. Also as a result from the reorganization, Fir M. Geenen, Senior Managing Director, left the firm after a year; his responsibilities have been assumed by other senior members of the portfolio management team.
2. On July 3, 2008, Relational launched a new offering that focuses on the middle market companies (market capitalizations of \$1 - \$8 billion). Relational has been successful in this space in the past but targeted larger companies as assets have grown. CalPERS made a \$300 million investment in this fund, an additional \$300 million from another client is in documentation. Additional reporting/analysis on the Mid-Cap fund began this quarter.

Philosophy/Process: No material changes.

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM
Relational Investors – Mid Cap
Third Quarter 2008

Performance Analysis:

Relational is in the beginning stages of building its Mid Cap portfolio. Given the young age of the fund, the manager indicated that it will continue to look for attractive opportunities. Wilshire will continue to monitor the portfolio activities.

Calendar Year Performance (%) As of 9/30/2008	
	YTD*
Relational Mid-Cap	-8.46
S&P 400 Mid Cap Index	-10.71
Excess Return	2.25

*Funded during 3Q08 and represents one month of returns.

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

Hermes U.K. Focus

Third Quarter 2008

Investment Type: U.K. Corporate Governance Fund

Inception Date: November 1999

Capital Commitment: \$200 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 0.0 million	\$ 199.9 million
Distributed Capital:	\$ 0.0 million	\$ 0.0 million

Market Value (9/30/08): \$ 252.6 million

Investment Strategy:

Hermes Focus Asset Management (HFAM) employs a corporate governance strategy that seeks to unlock intrinsic value in underperforming, medium-to-large capitalization, publicly traded, U.K. companies. For companies that meet their initial purchase criteria, HFAM identifies areas where value can be improved and recommends strategies for change to the board of directors and company executives. Proposed changes focus on the structure and composition of the board and management, strategic business plans and capital structure. HFAM initially expects to invest in 5-10 companies but intends to be invested in 15 companies as assets grow. Initial positions will range from 1-3% with open market purchases of common stock, however the goal is to have influence over 15-20% of a target company's outstanding shares. All cash balances will be equitized with FTSE 250 futures.

Summary Analysis:

Number of Investments: 10

Organization: The two current separate limited companies (Hermes Focus Asset Management Limited and Hermes Focus Asset Management Europe Limited) will become a single new Partnership – Hermes Focus Asset Management LLP (“the LLP”). The LLP will retain the support of the BT Pension Scheme and Hermes. At the same time, the executives responsible for managing the investments will purchase a majority financial stake in the business, resulting in more direct influence on, and economic participation in, the successful operation of the funds managed by the LLP.

Stephan Howaldt and Wouter Rosingh will be the Managing Partners and together with Paul Harrison will lead the LLP, which they expect will include 14 of the most experienced Focus Fund professionals as equity partners.

With increasing demands from existing and potential clients, Hermes plan to include the UK as part of the investment universe for the European Focus Fund.

Philosophy/Process: No material changes.

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

Hermes U.K. Focus
Third Quarter 2008

Performance Analysis:

The UK Focus Fund outperformed by 3.5% over the quarter, but produced negative absolute return of -18.6%. Following the receipt of over the required 75% consent level from clients in the middle of September to transition the UK Focus Fund ("UKFF"), the UKFF Transition team has started an orderly wind down of the holdings in the UKFF portfolio. Reflecting disposals made by the fund in the 3rd quarter, an initial distribution of approximately 30% of each client's investment was possible and was distributed on October 1st. A further distribution is planned for January 2009. Cable & Wireless and Vodafone represented 45% and 22% of stock disposals in the quarter respectively. In addition, they fully exited holdings in HMV and Kesa; and partially sold down our holdings in Rank, Rentokil, UBM, and Signet.

Calendar Year Performance (%)								
As of 9/30/2008								
	YTD	2007	2006	2005	2004	2003	2002	2001
Hermes U.K.	-32.67	-9.37	43.99	0.58	17.72	66.65	-25.72	-6.57
FTSE All Share	-29.95	5.32	16.75	13.94	21.02	34.39	-14.47	-15.52
Excess Return	-2.72	-14.69	27.24	-13.36	-3.30	32.26	-11.25	8.95

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

Hermes Europe Focus

Third Quarter 2008

Investment Type: European Corporate Governance Fund

Inception Date: August 2003

Capital Commitment: \$100 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 0.0 million	\$ 100.0 million
Distributed Capital:	\$ 0.0 million	\$ 0.0 million

Market Value (9/30/08): \$ 168.6 million

Investment Strategy:

Hermes Focus Asset Management (HFAM) employs a corporate governance strategy that seeks to unlock intrinsic value in underperforming, medium-to-large capitalization, publicly traded, European ex-U.K. companies. For companies that meet their initial purchase criteria, HFAM identifies areas where value can be improved and recommends strategies for change to the board of directors and company executives. Proposed changes focus on the structure and composition of the board and management, strategic business plans and capital structure. HFAM initially expects to invest in 5-10 companies but intends to be invested in 15 companies as assets grow. Initial positions will range from 1-3% with open market purchases of common stock, however the goal is to have influence over 15-20% of a target company's outstanding shares. All cash balances will be equitized with FTSE Europe ex-U.K. futures.

Summary Analysis:

Number of Investments: 17

Organization: The two current separate limited companies (Hermes Focus Asset Management Limited and Hermes Focus Asset Management Europe Limited) will become a single new Partnership – Hermes Focus Asset Management LLP (“the LLP”). The LLP will retain the support of the BT Pension Scheme and Hermes. At the same time, the executives responsible for managing the investments will purchase a majority financial stake in the business, resulting in more direct influence on, and economic participation in, the successful operation of the funds managed by the LLP.

Stephan Howaldt and Wouter Rosingh will be the Managing Partners and together with Paul Harrison will lead the LLP, which they expect will include 14 of the most experienced Focus Fund professionals as equity partners.

With increasing demands from existing and potential clients, Hermes plan to include the UK as part of the investment universe for the European Focus Fund.

Philosophy/Process: No material changes.

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

Hermes Europe Focus

Third Quarter 2008

Performance Analysis:

The European Focus Fund severely underperformed the benchmark in the third quarter of 2008 by -12.7%. During the quarter 15 of 19 holdings underperformed the benchmark. An analysis of the portfolio has shown that sector allocation contributed positively (+1.97%) to relative performance in Q3. The most important factor was the lack of exposure to commodities (including Oil). Other negative contributory factors to performance were that "Value" as a style and Mid/Small-caps (all of which the Fund is naturally exposed to) underperformed considerably and the beta of the portfolio was slightly in excess of 1 during the period.

Calendar Year Performance (%)					
As of 9/30/2008					
	YTD	2007	2006	2005	2004
Hermes Europe	-40.86	12.65	48.49	17.08	32.89
FTSE Europe ex-U.K.	-30.22	17.70	36.95	10.95	22.07
Excess Return	-10.64	-5.05	11.54	6.13	10.82

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM
Hermes UK Small Companies Focus Fund
Third Quarter 2008

Investment Type: U.K. Corporate Governance Fund

Inception Date: October 2008

Capital Commitment: \$60 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 0.0 million	\$ 59.9 million
Distributed Capital:	\$ 0.0 million	\$ 0.0 million

Market Value (9/30/08): \$ 35.1 million

Investment Strategy:

HFAM's strategy is to add value by investing in smaller UK companies that have a significant gap between the current trading price of the company versus its actual value if it were managed properly. HFAM seeks to narrow this value gap by improving the corporate governance, Board members and senior management, capital structure, and overall strategy of these underperforming companies. The Fund expects to have a concentrated portfolio of 12 to 20 companies, with a goal out-performing the FTSE Small Cap (ex-Investment Trusts) Total Return Index by 5% on a three year rolling basis.

Summary Analysis:

Number of Investments: 13

Organization: The two current separate limited companies (Hermes Focus Asset Management Limited and Hermes Focus Asset Management Europe Limited) will become a single new Partnership – Hermes Focus Asset Management LLP (“the LLP”). The LLP will retain the support of the BT Pension Scheme and Hermes. At the same time, the executives responsible for managing the investments will purchase a majority financial stake in the business, resulting in more direct influence on, and economic participation in, the successful operation of the funds managed by the LLP.

Stephan Howaldt and Wouter Rosingh will be the Managing Partners and together with Paul Harrison will lead the LLP, which they expect will include 14 of the most experienced Focus Fund professionals as equity partners.

With increasing demands from existing and potential clients, Hermes plan to include the UK as part of the investment universe for the European Focus Fund.

Philosophy/Process: No material changes.

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM
Hermes UK Small Companies Focus Fund
Third Quarter 2008

Performance Analysis:

The UK Small Companies Focus Fund II outperformed its benchmark by 5.6% in the third quarter of 2008. Of note, the cash position was the second largest contributor to this outperformance, accounting for about a quarter of the positive contributions during Q3. Portfolio activity during the quarter continued as several portfolio companies restructured in line with their engagement programs. nCipher announced an agreed offer from French company Thales at 300p a share following numerous approaches. Anite finally sold its Public sector division to KKR, who were the logical buyer having already taken competitor Northgate private. The price was slightly ahead of expectations. Low & Bonar disposed of their flooring division, successfully de-leverage the company at a critical time and focusing on the high growth technical textiles division.

Calendar Year Performance (%) As of 9/30/2008		
	YTD	2007
Hermes UK Small Co. Focus	-32.62	-12.19
FTSE Small Cap ex-Inv. Trusts	-37.61	-13.85
Excess Return	4.99	1.66

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

Taiyo Pacific Partners/WL Ross

Third Quarter 2008

Investment Type: Japanese Corporate Governance Fund

Inception Date: July 2003

Capital Commitment: \$500 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 0.0 million	\$ 502.5 million
Distributed Capital:	\$ 0.0 million	\$ 0.0 million

Market Value (9/30/08): \$ 545.8 million

Investment Strategy:

Taiyo Pacific Partners/WL Ross believe that public equity investors in Japan can be rewarded with superior returns by investing in companies that will implement corporate governance improvements. The investment strategy has two elements. First, identify undervalued stocks utilizing Taiyo's asset value and earnings potential analysis. Second, create valuation improvements by means of a three-phase corporate governance strategy. The three phases are: improving transparency and disclosure, improving corporate profitability, and improving shareholder value. Taiyo proposes to use its own proprietary database to identify target companies. Once identification is made, Taiyo's strategy is to be a constructive shareholder with those companies willing to make corporate governance improvements.

Summary Analysis:

Number of Investments: 15

Organization: Taiyo brought in Yule Hyun, previously a buy-side analyst at Joho Capital and TIAA-CREF in NY, as an Associate during the quarter. One small investor with approx. \$17 million had given notice to withdraw from the Taiyo Fund by the end of the year. An existing investor added \$200 million into the Cypress Fund during the third quarter.

Philosophy/Process: No material changes.

Performance Analysis:

Taiyo Fund's third quarter time-weighted return of -24.8% underperformed the TOPIX, which returned -17.6%. The fund's high exposure to highly cyclical, market-sensitive industries was the primary driver of this quarter's underperformance: many of the fund's industrial/machinery manufacturing companies' stock prices were adversely impacted by the fast spreading global economic slump and were sharply lower, which in turn hurt the fund's return. Among the largest detractors were precision gear/hydraulic equipment manufacturer Nabtesco (-48.5%), chains/power transmission system manufacturer Tsubakimoto Chain (-33.2%) and computer peripherals maker Roland Corp (-39.2%).

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM
Taiyo Pacific Partners/WL Ross
Third Quarter 2008

Performance Analysis (Continued):

Calendar Year Performance (%)					
As of 9/30/2008					
	YTD	2007	2006	2005	2004
Taiyo	-26.59	-3.91	9.08	56.46	27.03
Topix Index	-26.31	-12.22	1.90	44.29	11.23
Excess Return	-0.28	8.31	7.18	12.17	15.80

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

Taiyo Pearl Fund/WL Ross

Third Quarter 2008

Investment Type: Japanese Corporate Governance Fund

Inception Date: October 2007

Capital Commitment: \$200 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 0.0 million	\$ 200.0 million
Distributed Capital:	\$ 0.0 million	\$ 0.0 million

Market Value (9/30/08): \$ 179.0 million

Investment Strategy:

TPF believes that responsible shareholder influence can unlock the value in Japanese companies, resulting in significant out performance for shareholders. TPF will utilize a friendly relational approach in working with Japanese companies in both public and private equity space to create and/or unlock value. TPF will focus on companies with a market cap of \$50 ~ \$500million. The investment approach will include 1) activist investing in public companies including taking a controlling stake where appropriate (5% or greater in Japanese equities), 2) active investing in attractive public companies (where they will not take a controlling stake holding less than 5%) and 3) active investing in private companies. Taiyo is seeking to achieve a 15% to 20% annualized return on an absolute basis. The portfolio will average about 30 stocks at a time and several private equity transactions.

Summary Analysis:

Number of Investments: 17

Organization: Taiyo brought in Yule Hyun, previously a buy-side analyst at Joho Capital and TIAA-CREF in NY, as an Associate during the quarter. One small investor with approx. \$17 million had given notice to withdraw from the Taiyo Fund by the end of the year. An existing investor added \$200 million into the Cypress Fund during the third quarter.

Philosophy/Process: No material changes.

Performance Analysis:

For the quarter ended September 30, 2008, the Pearl Fund generated a time-weighted return of -6.0%, trailing its stated objective, Absolute Return of 0%, but outperformed relative to the TOPIX, which returned -17.6%. Poor performance from the fund's industrial manufacturing and real estate related stocks hurt this quarter's return, as these sectors in general have performed poorly amid contracting global economies, falling investor sentiment and reduced spending. Year to date, the Pearl Fund's return was -15.7%.

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM
Taiyo Pearl Fund/WL Ross
Third Quarter 2008

Performance Analysis (Continued):

Calendar Year Performance (%) As of 9/30/2008	
	YTD
Taiyo Pearl Fund	-15.71
Absolute Return of 0%	0.00
Excess Return	-15.71

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

Taiyo Cypress Fund/WL Ross

Third Quarter 2008

Investment Type: Japanese Corporate Governance Fund

Inception Date: April 2008

Capital Commitment: \$200 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 0.0 million	\$ 200.0 million
Distributed Capital:	\$ 0.0 million	\$ 0.0 million

Market Value (9/30/08): \$ 156.1 million

Investment Strategy:

Investment Strategy: TCF sees considerable un-tapped value in the Japanese stock market. TCF believes that responsible shareholder influence can unlock the value in Japanese companies, resulting in significant outperformance for shareholders. TCF will utilize a friendly relational approach in working with Japanese companies focused on opportunities in both the public and private equity space to create and/or unlock value. TCF will focus on companies with a market cap greater than ¥220 billion. The investment approach will include 1) activist investment in public companies including taking a controlling stake where appropriate (5% or greater in Japanese equities) and 2) active investment in private companies. The portfolio is expected to hold 8-10 publicly traded companies representing no less than 65% of the portfolio, with the remainder of the portfolio to be comprised of private equity.

Summary Analysis:

Number of Investments: 11

Organization: Taiyo brought in Yule Hyun, previously a buy-side analyst at Joho Capital and TIAA-CREF in NY, as an Associate during the quarter. One small investor with approx. \$17 million had given notice to withdraw from the Taiyo Fund by the end of the year. An existing investor added \$200 million into the Cypress Fund during the third quarter.

Philosophy/Process: No material changes.

Performance Analysis:

The Cypress Fund generated a time-weighted return of -18.1% for its first full-quarter ending September 30, trailing its stated benchmark, the TOPIX, which returned -17.6%. The Fund's large holdings in material/electrical/machinery stocks, or companies that have close ties to these industries were the main performance detractors, as investors sold off these stocks in response to a fast spreading economic slowdown and drop-offs in industrial demand/output.

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM
Taiyo Cypress Fund/WL Ross
Third Quarter 2008

Performance Analysis (Continued):

Calendar Year Performance (%) As of 9/30/2008	
	YTD
Taiyo Pearl Fund	-18.06
Topix Index	-17.63
Excess Return	-0.43

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

Knight Vinke
Third Quarter 2008

Investment Type: European Corporate Governance Fund

Inception Date: September 2003

Capital Commitment: \$300 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 0.0 million	\$ 576.0 million
Distributed Capital:	\$ 0.0 million	\$ 481.3 million

Market Value (9/30/08): \$ 196.7 million

Investment Strategy:

Knight Vinke believes that in the absence of effective corporate governance and a truly independent board, the separation of ownership and management can create the opportunity for management to act in its own self interest rather than that of the shareholders. The strategy looks to identify underperforming stocks of companies that are fundamentally strong where redress of the underperformance is possible in a reasonable amount of time. The firm believes that detailed fundamental analysis can identify underperforming companies that have strong operating businesses, but are in need of a corporate finance solution to a factor or factors that specifically is depressing the share price. To identify such companies the firm uses several sources: its own screening process through market information services such as Bloomberg, their own industry knowledge, outside brokers, other institutional shareholders, other corporations, industry manager who may have recently retired, or corporate finance professionals.

Summary Analysis:

Number of Investments: 7

Organization: KV hired an additional junior analyst during the quarter and feels the group is now adequately staffed. KV also reached an agreement to purchase First Securities, a Monaco-regulated company which KV uses for trading securities.

The KV SSP Fund raised a total of €6.4 million during the third quarter. The offshore fund faced redemptions of €38.2 million which will take effect at the end of 2008 and the first quarter of 2009. Contract negotiation with a North American institution who previously committed \$200 million is now completed.

Philosophy/Process: No material changes.

Performance Analysis:

KV outperformed the market during the third quarter with an IRR return of -15.74% versus -20.76% for the index, in USD. While the last twelve months have been challenging for many corporate governance managers, KV has provided some protection vs. the benchmark as they have outperformed every month except July. Since inception performance continues to be strong with KV returning 15.45% vs. 4.79% for the index. Further, indications for performance in October were substantially positive on a relative basis.

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

Knight Vinke
Third Quarter 2008

Performance Analysis (Continued):

Calendar Year Performance (%)					
As of 9/30/2008					
	YTD	2007	2006	2005	2004
Knight Vinke	-16.65	7.42	51.12	28.08	24.73
FTSE All World Europe	-30.49	15.47	35.15	10.81	21.51
Excess Return	<i>13.84</i>	<i>-8.05</i>	<i>15.97</i>	<i>17.27</i>	<i>3.22</i>

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

Shamrock Capital

Third Quarter 2008

Investment Type: U.S. Corporate Governance Fund

Inception Date: December 2004

Capital Commitment: \$200 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 5.5 million	\$ 187.0 million
Distributed Capital:	\$ 16.0 million	\$ 56.8 million

Market Value (9/30/08): \$ 112.6 million

Investment Strategy:

Shamrock believes that combining a deep value investment orientation with an activist shareholder approach founded upon best governance practices, results in superior returns for long-term investors. They seek to find underperforming but fundamentally sound businesses, where they can substantially improve shareholder value with their application of good governance practice. They choose to look at companies they can purchase at a significant discount (<40%) to the underlying value and find free cash flow available to owners that typically exceed 10%. Once these criteria are met, Shamrock will only invest if they believe they can persuade the Board and/or management to believe in their activist strategy to make fundamental changes to the governance structure and business. After investing, persistence and careful monitoring is the key to unlocking value.

Summary Analysis:

Number of Investments: 14

Organization: Dennis Johnson, formerly employed by CalPERS, joined the firm and has started to re-work the portfolio. One immediate change has been that Shamrock will not actively join a board unless there are compelling reasons to.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through September 30, 2008, Shamrock's time-weighted performance has trailed its benchmark, but performance for the recent quarter was significantly above the benchmark as Shamrock did not hold any companies with revenue from mortgages. During the quarter, Shamrock's performance was helped by two of its holdings: Coinstar and Jackson Hewitt. Coinstar saw an uptick in its Redbox business as consumers tried to save money by staying home and watching movies and by increased customer use in its coin counting business. Coinstar recently announced a new board member and Shamrock believes the company is on track and should show good performance numbers. Jackson Hewitt's stock price increased as it appears investors went value hunting for stocks with strong EBITDA numbers. Shamrock terminated its NDA with Jackson is deciding what its next steps are.

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM
Shamrock Capital
Third Quarter 2008

Performance Analysis (Continued):

Calendar Year Performance (%)			
As of 9/30/2008			
	YTD	2007	2006
Shamrock	-13.15	-9.39	1.49
Russell 2000	-10.38	-1.57	18.35
Excess Return	-2.77	-7.82	-16.86

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM
Blum Strategic Partners III
Third Quarter 2008

Investment Type: U.S. Corporate Governance Fund

Inception Date: July 2005

Capital Commitment: \$200 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 0.5 million	\$ 123.4 million
Distributed Capital:	\$ 0.0 million	\$ 31.2 million

Market Value (9/30/08): \$ 126.9 million

Investment Strategy:

Blum believes that its private equity investment approach executed in the small- and mid-cap sectors of the public market results in superior returns for long-term investors. Blum seeks to find undervalued “good businesses”, where it can substantially improve shareholder value by working in partnership with management and Boards of Directors to implement value-enhancing strategies. Blum chooses to look at companies with a 10% cash-on-cash yield combined with a projected 10% growth rate in the free cash flow. Once the criteria are met, Blum will only invest if it believes that management and the Board will be receptive to its suggestions. The benchmark for Blum is an absolute return of 8% per annum.

Summary Analysis:

Number of Investments: 19

Organization: Blum expects two accounts, previously won by its Stinson fund, totaling \$250 million to be funded over the next quarter. One separate account with approximately \$115 million announced its withdrawal from Blum due to pension related obligations. Blum expects to complete its exit and return capital by the end of the year.

Philosophy/Process: No material changes.

Performance Analysis:

The Strategic Partners Fund III's third quarter return of -5.3% can primarily be attributed to large disappointing results from a handful of its “strategic blocks”, particularly Washington Mutual and CB Richard Ellis Group. Excluding the effect of the Washington Mutual write down, the Fund's performance was actually much better than the broad U.S. equity market. Most of Fund III's major focus, including Career Education, ITT and Avid Technology all performance relatively well during the quarter. Wilshire is glad to see that some of the Fund's value creation effort appear to be bearing fruit, but will continue to pay close attention to Blum's involvement with CB Richard Ellis Group as the company guides its real estate businesses through the worst economic slump in decades and find ways to refinance its short-term obligation.

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM
Blum Strategic Partners III
Third Quarter 2008

Performance Analysis (Continued):

Calendar Year Performance (%)			
As of 9/30/2008			
	YTD	2007	2006
Blum III	-27.88	3.92	9.46
8% Absolute Return	5.94	8.00	8.00
Excess Return	-33.82	-4.08	1.46

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM
Blum Strategic Partners IV
Third Quarter 2008

Investment Type: U.S. Corporate Governance Fund

Inception Date: December 2007

Capital Commitment: \$300 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 27.8 million	\$ 216.4 million
Distributed Capital:	\$ 0.0 million	\$ 0.0 million

Market Value (9/30/08): \$ 152.4 million

Investment Strategy:

Blum believes that its private equity investment approach executed in the small- and mid-cap sectors of the public market results in superior returns for long-term investors. Blum seeks to find undervalued “good businesses”, where it can substantially improve shareholder value by working in partnership with management and Boards of Directors to implement value-enhancing strategies. Blum chooses to look at companies with a 10% cash-on-cash yield combined with a projected 10% growth rate in the free cash flow. Once the criteria are met, Blum will only invest if it believes that management and the Board will be receptive to its suggestions. The benchmark for Blum is an absolute return of 8% per annum.

Summary Analysis:

Number of Investments: 18

Organization: Blum expects two accounts, previously won by its Stinson fund, totaling \$250 million to be funded over the next quarter. One separate account with approximately \$115 million announced its withdrawal from Blum due to pension related obligations. Blum expects to complete its exit and return capital by the end of the year.

Philosophy/Process: No material changes.

Performance Analysis:

Strategic Partners Fund IV's performance took a large hit in the third quarter with losses from its privately negotiated block in Washington Mutual. According to Blum, the quarter-end value of unrealized investments excluding WaMu was 3% below cost, which is significantly better than the -17% return reported by the S&P 500 Index. Other than the existing large public strategic blocks in ITT and Career Education, which now combine for a third of Fund IV and have done well for the quarter, Blum has continued to deploy capital and build out the rest of the fund. Wilshire expects to receive more updates from this young fund on its progress on some of the new investment ideas.

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM
Blum Strategic Partners IV
Third Quarter 2008

Performance Analysis (Continued):

Calendar Year Performance (%)	
As of 9/30/2008	
	YTD
Blum IV	-39.73
8% Absolute Return	5.94
Excess Return	-45.67

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

New Mountain Vantage

Third Quarter 2008

Investment Type: U.S. Corporate Governance Fund

Inception Date: January 2006

Capital Commitment: \$200 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 0.0 million	\$ 200.0 million
Distributed Capital:	\$ 0.0 million	\$ 0.0 million

Market Value (9/30/08): \$ 183.1 million

Investment Strategy:

New Mountain's strategy is to proactively identify deeply undervalued companies through intensive research and then to unlock the value of these companies by working with management to improve the businesses for the benefit of all shareholders. New Mountain will pursue this value-added strategy for the many situations where a negotiated purchase of control of a public company is not available, but where New Mountain can acquire public shares in the open market and use its style of active ownership to increase the value of the firm's stock. They begin with a "Top-Down" approach, looking at sectors that have stable demands with high growth potentials. They seek companies where barriers to new entry are high, companies have pricing power, and where free cash flow generation characteristics are strong.

Summary Analysis:

Number of Investments: 29

Organization: There were no new accounts or personal changes for New Mountain.

Philosophy/Process: No material changes.

Performance Analysis:

New Mountain underperformed against its index, the S&P 500, for the quarter as its largest holding, National Fuel's stock price depreciated due to the fall in commodities prices especially in natural gas. New Mountain still believes in its thesis is for National Fuel and believes the company is making solid progress. The rest of New Mountain's portfolio is heavily weighted in the energy sector and it was not immune to the board sell-off in this sector. New Mountain believes the companies will bounce back and does not anticipate making major changes.

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM
New Mountain Vantage
Third Quarter 2008

Performance Analysis (Continued):

Calendar Year Performance (%)			
As of 9/30/2008			
	YTD	2007	2006
New Moutain	-12.53	-2.05	
S&P 500	-19.29	5.49	
Excess Return	6.76	-7.54	N.A

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

Breeden Partners

Third Quarter 2008

Investment Type: U.S. Corporate Governance Fund

Inception Date: June 2006

Capital Commitment: \$500 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 0.0 million	\$ 617.4 million
Distributed Capital:	\$ 0.0 million	\$ 123.5 million

Market Value (9/30/08): \$ 530.5 million

Investment Strategy:

Breeden's philosophy is to invest in US companies that are experiencing underperformance and diminished valuation due to correctable problem in policy and governance. The Fund will target mid-to-large-cap companies ranging from \$500 million to \$10 billion in market capitalization. The portfolio will be concentrated and will typically hold 8 to 12 positions. The objective of the Fund is to outperform the S&P 500 Index by 10% over the long-term.

Summary Analysis:

Number of Investments: 8

Organization: Breeden added Molly Peters, a client relations and marketing manager during the quarter.

Breeden is in the process of launching a European fund by early 2009, starting off with \$300 - \$400 million, and \$500 million by the end of the year.

Philosophy/Process: No material changes.

Performance Analysis:

The manager continues to look for attractive opportunities and build out the portfolio, especially after the exit from Acco. Wilshire will continue to monitor the portfolio activities. Breeden has made notable progress in their strategies – members from Breeden have joined the Board at Steris, Zale, and H&R Block; the turnaround with Alexander & Baldwin is essentially complete, DST is repurchasing shares, both branches of Hillenbrand are thriving and poised for a good year, Helmerich & Payne secured 18 new contracts, and Zale's online sales have grown year over year.

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM
Breeden Partners
Third Quarter 2008

Performance Analysis (continued):

Calendar Year Performance (%)			
As of 9/30/2008			
	YTD	2007	2006
Breeden Partners	6.6	-4.28	
S&P 500	-19.29	5.49	
Excess Return	25.89	-9.77	N.A

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM**

Governance for Owners

Third Quarter 2008

Investment Type: European Corporate Governance Fund

Inception Date: October 2006

Capital Commitment: \$300 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 0.0 million	\$ 300.1 million
Distributed Capital:	\$ 0.0 million	\$ 0.0 million

Market Value (9/30/08): \$ 196.9 million

Investment Strategy:

GO's philosophy is to invest in fundamentally sound quoted companies in Europe where shares are trading at a discount due to correctable management or strategic issues. GO has a performance objective of five percentage points over the return of the FTSE Developed Europe Total Return Index on an annualized basis. The fund is expected to have 10 to 15 equity positions when it is fully invested with futures used to equitize any meaningful cash balances.

Summary Analysis:

Number of Investments: 10

Organization: GO has recently finalized agreements with two new major U.S. clients. Due to their size and complexity, each will have its own partnerships, the GO Third and Fourth Focus Funds. Dr. Bill Crist joined the Board of GO in July and was nominated as Chairman, succeeding Bob Monks. Bob will remain a senior advisor to the company after Bill becomes Chairman at the October Board meeting.

Philosophy/Process: No material changes.

Performance Analysis:

The fund significantly underperformed the European market for the third quarter in a row with a return of -15.43% versus -10.95% of the FTSE All World Europe Index. This brought the since inception performance to -27% versus -17% for the benchmark. The value bias inherent in corporate governance investing continued to impact the portfolio, much like the first and second quarter. GO further elaborated that their focus on small and mid cap stocks also detracted from performance as large cap stocks in Europe held up much better during this period.

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM
Governance for Owners
Third Quarter 2008

Performance Analysis (Continued):

Calendar Year Performance (%)		
As of 9/30/2008		
	YTD	2007
Governance for Owners	-37.78	7.06
FTSE All World Europe	-30.49	15.47
Excess Return	-7.29	-8.41

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM
Lazard Korea Corporate Governance Fund
Third Quarter 2008

Investment Type: Korean Corporate Governance Fund

Inception Date: May 2008

Capital Commitment: \$100 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 0.0 million	\$ 100.0 million
Distributed Capital:	\$ 0.0 million	\$ 0.0 million

Market Value (9/30/08): \$ 80.2 million

Investment Strategy:

The Fund's strategy is to add value by investing in small and mid-sized Korean companies that are undervalued with significant room to improve governance principles and practices. The Fund has a unique and exclusive relationship with the Center for Good Corporate Governance (CGCG), whereby the CGCG provides strategic advice regarding the engagement of a targeted company. Notably, the Fund will pursue its objective through a collaborative discussion between company management, the Fund and other shareholders, rather than a confrontational approach. The Fund feels that the Korean market is particularly well-suited to a corporate governance approach to investing as many companies have poor governance practices and the country trades at a discount to other similar markets as a result.

Summary Analysis:

Number of Investments: 18

Organization: There were no client redemptions. One European account was gained during the quarter with \$90 million. There were no personnel turnovers either.

Philosophy/Process: No material changes.

Performance Analysis:

The continued depreciation of the Korean Won, which fell another 13.3% against the Dollar during the third quarter, was a large contributor to the fund's absolute return. However, with that said, the Korea Corporate Governance Fund's third quarter return of -18.5% still outperformed relative to the KOSPI Index, which returned -24.1%. Some of the fund's industrial holdings, namely Taekwang Industrial, and materials stock, Hyundai H&S, helped contribute to the fund's relative outperformance.

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CORPORATE GOVERNANCE INVESTMENT PROGRAM
Lazard Korea Corporate Governance Fund
Third Quarter 2008

Performance Analysis (Continued):

Calendar Year Performance (%)	
As of 9/30/2008	
	YTD
Lazard Korea	-18.53
KOSPI	-24.14
Excess Return	5.61